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World Business Newspaper http://www.FT.com TUESDAY JUNE 24 1997

Compromise set to end German digital TV battle

The battle to control digital pay-television in Germany appears close to a truce, with Kirch-Group and rival media company CLT-Ufa announcing a compromise deal. The two companies, which have spent more than a year fighting, said they had agreed to work together to develop digital pay-TV. The agreement, which must seek regulatory approval, is a welcome respite for Kirch – the subject of intense speculation over its financial health. Page 20 and Lex

ICI outlines Australian sale: ICI, the UK-based chemicals group, yesterday announced details of the planned £1bn public offering of its 62.4 per cent stake in ICI Australia, but refused to rule out the possibility of a trade sale to a single buyer. The UK group denied it had talked to potential bidders, but said that if a buyer came forward it would consider any offer. Page 21

Lonrho and JCI close to agreement: Talks over a £2bn merger between UK-based conglomerate Lonrho and its South African suitor, the mining group JCI, will come to a head this week. "I believe the position with JCI will be clarified in days, rather than weeks," said Lonrho chief executive Nicholas Morrell as he announced pre-tax profits before exceptional charges down 38 per cent at £88m for the half-year to March 31. Page 21

Eli Lilly announces $2.4bn charge: Eli Lilly, the US pharmaceuticals company, yesterday announced a $2.4bn charge to reflect the fall in value of PCS, which it bought three years ago to try to secure wider distribution for its drugs in the US. The move underlines how far prospects for the US healthcare industry have shifted during the Clinton presidency. Page 21

New Japanese life failures feared: New failures in Japan's life assurance sector are "probable" as Japan prepares for "Big Bang" financial deregulation, said the US credit rating agency, Standard & Poor's. The agency's warning comes as five big Japanese life assurance groups have been assigned low credit ratings by S&P. Page 21

Lagerfeld hit by £1.8m tax bill

Fashion guru Karl Lagerfeld (left) has been ordered to pay more than £1.8m in back taxes after a French court ruled that he was not a tax exile in Monaco. The court in Nice said Lagerfeld, the chief designer for French fashion house Chanel, Italian company Fendi and his own signature line, had evaded tax for two years in the early 1980s.

US tobacco stocks fall after deal: US tobacco stocks took a drubbing yesterday as investors feared that Congress would demand tougher terms for the industry's $368bn settlement with anti-tobacco lawyers. But Wall Street's cool reaction for the deal could also be good news for those who hammered it out – because legislators would have been much less likely to approve an agreement that sent tobacco stocks soaring. Page 9

Alphatec chief faces call to quit: Creditors of Alphatec Electronics, the Thai computer chip maker, are expected to seek the resignation of chief executive Charn Uswachoke before they agree to give the company time to restructure its debts, after Alphatec missed a $45m payment on a euroconvertible bond issue. Last month Alphatec missed repaying $34m to a syndicate led by ING Bank. Page 20

Kremlin shrugs off budget vote: Russia's Communist-dominated parliament has defied President Boris Yeltsin by rejecting his plans to cut budget spending targets by one-fifth. But the motion has little practical importance, given parliament's inability to hold the government to account over its budgetary performance. Page 2

Lord's Test match ends in draw: The weather-ravaged second Test at Lord's ended in a draw today, leaving England one ahead in the six-match Ashes series against Australia. Scores: England 77 and 266 for four declared, Australia 213 for seven declared. Man of the match was Australian bowler Glenn McGrath.

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STOCK MARKET INDICES

New York lunchtime		
Dow Jones Ind Av	7724.59	(-71.92)
NASDAQ Composite	1446.02	(+0.92)
Europe and Far East		
CAC40	2762.20	(+5.10)
DAX	3754.72	(-33.55)
FTSE 100	4575.8	(-18.1)
Nikkei	20,436.14	(+50.60)

US LUNCHTIME RATES

Federal Funds	5½%
3-mth Treas Bills: Yld	5.10%
Long Bond	99$\frac{13}{32}$
Yield	6.690%

OTHER RATES

UK: 3-mo Interbank	6¾%	(6½%)
UK: 10 yr Gilt	100¾	(100⅞)
France: 10 yr OAT	98.82	(98.97)
Germany: 10 yr Bund	102.16	(101.99)
Japan: 10 yr JGB	104.1987	(104.166)

NORTH SEA OIL (Argus)

Brent Dated	$17.545	(17.07)

GOLD

New York: Comex		
Jun	$336.4	(337.7)
London:		
close	$336.30	(338.45)

DOLLAR

New York: lunchtime		
£	1.6662	
DM	1.7208	
FFr	5.80465	
SFr	1.43325	
Y	115.25	
London:		
£	1.6643	(1.6540)
DM	1.7224	(1.7321)
FFr	5.8111	(5.8455)
SFr	1.4342	(1.4409)
Y	115.475	(114.66)
Tokyo close:	Y 115.2	

STERLING

DM	2.8669	(2.8649)

9 770174 736128

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Taxpayer may face bill of FFr170bn for rescue of state-owned bank

Crédit Lyonnais costs soar

By Andrew Jack in Paris

Rescuing Crédit Lyonnais, the French state-owned bank, could cost French taxpayers nearly FFr170bn ($29.2bn) – far more than previously estimated.

The revised figure, contained in a draft report by the parliamentary committee set up to monitor the restructuring of the bank, is likely to increase tensions between the French government and the European Commission in Brussels, as well as possibly arousing fresh complaints from competitors.

The commission has already granted approval for state aid of FFr50bn to the troubled bank. And it is still awaiting a long-promised report from the French government which was expected to seek approval for a further FFr30bn in aid, tied to the condition that the bank be privatised during 1998 or 1999.

Yesterday's report suggests the amount for which the government will have to seek approval will be significantly more than FFr30bn.

The larger claim could also trigger a crisis for France's Socialist government, which is attempting to maintain the country's budget deficit within the tight limits that would enable it to qualify for entry to European monetary union in January 1999.

Mr Charles de Courson, the outgoing centre-right politician who was a director of EPFR, the body set up by the state to supervise the rescue of Crédit Lyonnais, said the total losses realised by the sale of investments and loans formerly owned by the bank would be FFr108bn.

He said the interest charges to finance EPFR until 2014, when all the assets are due to have been sold, would cost an extra FFr65bn.

The figures are contained in a report that Mr de Courson said had been submitted in the middle of last week to the French parliament, as well as to Mr Dominique Strauss-Kahn, the minister of economics, finance and industry.

However, other senior figures involved in the rescue plan expressed some scepticism over the figures. They stressed that the final report would not be issued for several more weeks.

The previous government had requested a new capital injection to strengthen the bank before its privatisation. It had also requested the cancellation of a FFr120bn penalising loan in the original rescue plan.

This was made by Crédit Lyonnais at below market interest rates to finance the sale of more than FFr200bn in assets transferred off its balance sheet for sale.

However, this new plan has now been thrown in doubt by the election at the start of June of the Socialist government led by Mr Lionel Jospin, who last week in the National Assembly confirmed his election pledge to halt further sell-offs of state enterprises unless they were necessary in "the national interest".

Mr de Courson yesterday called on the government to transfer the costs incurred by the Crédit Lyonnais rescue plan directly into the public accounts rather than keeping them "concealed" in a series of quasi-public bodies.

He also demanded that the organisations responsible for selling Crédit Lyonnais's former assets be dismantled and their work put out to tender.

Compaq to buy Tandem in $3bn deal

By Louise Kehoe in San Francisco

Compaq Computer, the world's leading supplier of personal computers, yesterday agreed to acquire Tandem Computers, a Silicon Valley maker of high performance mainframe computers, in a stock swap valued at about $3bn.

The deal could catapult the growing US company into the world's leading computer manufacturer by the turn of the century, surpassing International Business Machines, which has led the industry for more than three decades.

Even before yesterday's announcement, Compaq, which had sales last year of $18.1bn, had set a goal of more than doubling its revenues to $40bn by 2000.

IBM had total sales last year of $75.9bn, but a growing proportion of its revenues is derived from software and services.

Mr Eckhard Pfeiffer, Compaq chief executive, said the acquisition of Tandem would make the group grow even faster. The combined companies would be the world's largest supplier of computers based on Intel chips and Microsoft's software.

Tandem, with 1996 revenues of $1.9bn, is best known for its "fault-tolarant" computer systems which are guaranteed not to fail. It has begun a strong rebound over the past nine months after falling behind in the trend toward "open systems" based on industry-standard chips and software. Tandem customers include many leading banks, retailers and telecommunications companies.

Acquisition talks grew out of a technology partnership between the companies, Mr Pfeiffer said. For the past year, Tandem and Compaq have been collaborating in the development of "clustering" technology which harnesses several high-capacity computers, known as servers, to increase the reliability of a corporate network system.

"As we discussed industry and product directions we realised we had a tremendous joint opportunity," said Mr Pfeiffer.

Compaq will swap 29m newly issued shares at an exchange ratio of 0.21 Compaq shares for each share of Tandem stock. Based on Friday's closing prices this values the deal at just over $3bn, a 42 per cent premium over Tandem's market value. To complete the acquisition, Compaq rescinded a previously announced share buyback programme.

Following news of the deal, Compaq's shares opened at $105⅛, down $1¼. Tandem's share price soared to $21⅞, a $6⅝ gain.

The deal follows reports of acquisition talks between Compaq and Digital Equipment, as well as Gateway 2000, another PC company.

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Danish prime minister Poul Nyrup Rasmussen (left) and his Irish counterpart, John Bruton, on their way to a special United Nations session in New York yesterday, convened to renew countries' commitment to goals for the global environment set five years ago at the Rio de Janeiro Earth Summit. Report, Page 20 Picture: Reuter

Pakistan and India move towards deal on Kashmir

By Farhan Bokhari in Islamabad and Khozem Merchant in New Delhi

India and Pakistan yesterday agreed to negotiate the future of Kashmir, the territory whose ownership has been the object of two wars between the countries since they split in 1947.

The move was part of a broad agreement, reached after four days of talks in Islamabad, to place all "outstanding issues" between them on the table for negotiation.

Mr Shamshad Ahmad, the Pakistani foreign secretary, who led the talks with Mr Salman Haider, his Indian counterpart, said the agreement would "initiate progress towards the settlement of all outstanding issues".

Mr I K Gujral, India's prime minister, and his Pakistan counterpart, Mr Nawaz Sharif, set the tone with their personal commitment earlier this year to improve relations between the south Asian neighbours.

A Pakistani official said the countries had finally come down to "nuts and bolts issues" which would be discussed at the next round of talks in New Delhi in September.

The two sides agreed to set up working groups on contentious issues including:

- peace and security, covering continental ballistic missiles;
- terrorism – likely to address Delhi's allegations of Pakistani-supported incursions into Indian territory, and Islamabad's claims that India has helped destabilise its troubled Sind province;
- the Himalayan territory of Siachen, where troops from the two countries face an enduring stand-off. India and Pakistan also said they would prevent "hostile propaganda", of the kind that arose in the week ahead of the talks.

Two weeks ago Pakistan accused India of violating its airspace, a Pakistani major was killed in a border clash and Washington newspapers reported that India had deployed missiles at its border with Pakistan, which New Delhi denied.

But analysts said it could be years before any real progress was made on the Kashmir issue.

Mr Pran Chopra, of the Centre for Policy Research in New Delhi, said yesterday's announcements formalised what already existed. "I do not see any indication that

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UK gives ground to Beijing over HK troops

By John Ridding in Hong Kong

China will be allowed to bring more than 500 armed troops into Hong Kong before the midnight transfer of sovereignty next Monday, following an agreement reached yesterday with Britain.

The move ends a three-week stalemate and marks a significant concession by Britain, which had previously rejected Chinese demands to reinforce an advance guard of 200 unarmed troops from the People's Liberation Army.

British officials described yesterday's accord as "a reasonable compromise" given China's demand this month that it bring the bulk of its garrison across the border before midnight. Although Beijing has not specified the size of the garrison, it is expected to number between 6,000 and 10,000 troops.

Under the terms of the agreement, China will send 509 soldiers across the border at 9.00pm local time. They will come in 39 vehicles and will carry light weapons, defined as pistols and rifles. The troops will be stationed at several barracks in the territory, with some attending a midnight handover ceremony.

China's official news agency said the accord would allow the PLA to take up its defensive responsibilities from "zero hour" on July 1. Beijing argues this is necessary to avoid a defence vacuum and has underlined China's responsibility for the defence of Hong Kong under the Sino-British treaties which govern the transfer of sovereignty.

Beijing-backed newspapers had warned that rejection of China's demand would obstruct co-operation on the withdrawal of the British garrison after midnight. Following yesterday's accord, British and Chinese officials said they were confident of a smooth exchange of defence responsibilities.

China's demand to dispatch reinforcements, having already

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Bayer signs deal on jobs and costs

By Graham Bowley in Frankfurt

Bayer, the German chemicals and pharmaceuticals company, signed a cost-cutting deal with its German workers yesterday in return for a promise to avoid large job losses before 2001.

The ground-breaking agreement commits Bayer to DM20bn ($12bn) of new investment np to the end of 2002 in return for savings in bonus payments and other extra staff costs worth about DM300m a year.

It is the first time Bayer bas atruck an agreement directly with its workforce, rather than through the industry-wide agreements traditional in Germany.

The accord represents the latest concession secured by German companies which want to free up the labour market and improve competitiveness.

It comes against a background of record high unemployment in Germany and growing pressure on German businesses to reduce costs to remain internationally competitive.

Already, many large companies have moved some production to areas sucb as eastern Europe to take advantage of cheaper and more flexible workers.

Bayer said workers would not be put off for "economic reasons" before the end of 2000, although there could still be voluntary redundancies or losses through restructuring. The deal also commits workere to increased flexibility in working hours.

Mr Burkhard Jahn, a spokesman for the BAVC, the German chemical employers' association, said the agreement was one of the most progressive yet in the chemicals industry.

"This is in the epirit of doing what is necessary to bolster competitiveness and keep employment in Germany," he said.

The latest deal follows the industry-wids agreement struck earlier this month between employers and the IG Chemie trade union, which allows companies to reduce wages by up to 10 per cent in times of economic downturns in return for not sacking workers.

This innovative deal has won praise in Germany, leading to calls for other unions – such as the more powerful metal workers' union – to follow suit.

In April, Ford of Germany secured a cost-cutting deal with its workers to save $120m (£72m) a year to help safeguard 34,000 jobs, in return for investment commitments in the country up to 2010. Last month, BASF agreed a deal with its workers to extend its system of profit-related pay in a bid to motivate its workers more.

Mr Hans-Jürgen Mohr, Bayer labour director, said that globalisation of markets and tougher competition were hitting Bayer particularly hard. He said that the company's ataff expenses were much higher than its international competitors'. Bayer has reduced its workforce by a quarter over the last 10 years.

Mr Rolf Nietzard, chairman of the Bayer employee committee, hailed the agreement as a guarantee of "a high level of job security". He said that "a start has been made towards revitalising Germany as a production location for Bayer".

The agreement, which covers 46,000 staff at five of Bayer's German plants and also commits Bayer to offer at least 800 traineeships, comes into effect on July 1.

Parliament votes down spending cuts but ministers set to press ahead

Kremlin shrugs off budget vote

By John Thornhill in Moscow

The Communist-dominated parliament in Russia yesterday defied President Boris Yeltsin on his return from the Group of Seven summit in Denver by rejecting his government's plans to cut budget spending targets by one-fifth.

But the motion, carried by 210 votes to 112, has little practical importance, given parliament's inability to hold the government to account over its budgetary performance.

Mr Vladimir Petrov, depnty finance minister, said the government would continue to cut planned spending as tt deemed necessary to keep public finances under control.

The government has said it wtll have to chop Rbs108,000bn ($19bn) from the "unrealistically high" spending targets contained in the 1997 budget because of a shortfall in tax revenues.

The vote was part of a continuing political battle between the government and parliament over who should take the blame for rewriting the wildly optimistic budget. But parliament, which rises for the summer recess today, showed some sense of responsibility by rejecting a Communist-inspired alternative proposal to cut planned spending by just Rbs38,000bn.

In spite of the parliamentary setback, government ministers were in almost triumphalist mood yesterday as they trumpeted the achievements of the new team's first 100 days in office. Mr Boris Nemtsov, who was appointed first deputy prime minister in March, said that the government had taken great strides in liquidating its arrears to pensioners by sqneezing extra tax revenue out of the worst corporate tax dodgers.

He said the government had already eliminated pension arrears in 60 of Russia's 89 regions and would complete the task by July 1, as it had promised. It would then eliminate its arrears to federal employees, snch as teachers and soldiers, he said.

The 37-year-old minister also unveiled plans yesterday to address the chronic non-payments crisis bedevilling large swathes of industry.

He said the federal energy commisston, the industry regulator, would slash electricity tariffs by 30 per cent for industrial consumers which paid their bills in cash on time.

The government has already announced a similar cut of 40 per cent in the gas industry.

The initiative is designed to encourage prompt payment of bills and break the logjam of debts that has built up in the economy. The move could also lead to a strong inflow of cash into the energy companiee, enabling them to pay their outstanding tax bills, he added.

Mr Nemtsov said thet the recent reduction in the central bank's refinancing rate from 86 per cent to 24 per cent would encourage banks to invest in the real economy rather than speculate in the debt and currency markets.

"In the current year, there will not be significant growth in GDP [gross domestic product]. But there will be in 1998," he said.

Mr Anatoly Chubais, the other first deputy prime minister who is spearheading the government's reform drive, welcomed Russia'e promised inclusion in the Paris Clnb of creditor nations.

Mr Chubais said this would enable Russia to begin recovering at least part of the $140bn of debt it is owed by 40 other countries which had close ties with the Soviet Union.

He said it was unrealistic to expect some countries, such as Nigeria or Angola, to repay their debts. But other countries' debts were recoverable in part.

Tougher emissions limits on cars 'will hit costs'

By Sander Thoenes in Brussels

Europe's petroleum industry complained yesterday that tough new limits on car engine emissions and petrol and diesel content would do little for air quality but would boost costs to industry by Ecu50bn ($56.5bn).

European Union environment ministers agreed on the new measures last week, along with a deadline of 2000 for refineries to produce petrol and diesel with less sulphur, benzine and aromatics. They alao pledged to cut emissions of carbon dioxide and other gases which are blamed for cansing global warming by 7.5 per cent before 2005.

Oil industry execntives who met yesterday at the European Petroleum Indnstry Association said that refineries would have to invest Ecu20bn to meet the new limits on fuel for 2000. Mr Michel Flohic, deputy secretary general of the association, said that meeting even tougher targets for 2005 could cost another Ecu30bn. "This is too serious to be decided without consulting further studies," said Mr Flohic. "There is no urgency to set such targets today."

The association charged that the new limits "do little or nothing for air quality, but add 60-70 per cent to the cost" of a more modest proposal of the European Commission. To compensate for removing benzine, new processors are needed to maintain the octane level. To remove sulphur, fuel needs to be beated and injected with hydrogen more intensively. Removing sulphur in diesel will be the most costly process, Mr Flohic said.

Benzine is a carcinogenic and sulphur oxide emissions contribute to acid rain, and sulphur in fuel reduces the effect of catalytic converters that have been installed to reduce other harmful emisstons, including carbon dioxide.

However, Mr Flohic warned that more intensive refining to remove sulphur would actually sharply boost carbon dioxide emissions, which are blamed for global warming.

The lobby estimates have been challenged by rival industries, governments and environmental groups. The European Commission, planning for slightly more lenient targets than those adopted by the ministers, said that the average driver would pay only Ecu2.3 ($2.60) extra each year for cleaner petrol.

The European Automobile Manufacturers' Association has argued that without reductions of the sulphur content in fuel, new technology to meet emission limits imposed on cars last week could not work.

Mr Stefan Rodt, department head at the German Environmental Protection Agency, estimated that carbon dioxide emissions from refineries would only rise "a few per cent" and would be more than compensated by reduced emissions from car engines.

Socialist members of the European Parliament, which has more of a say in environmental legislation than in other areas, said the cuts did not go as far as parliament had reqnested and vowed to push for more during a second reading of the directive on fuel emissions.

Some of the southern member states are sure to use an option in last week's accord to apply for a three-year delay on meeting sulphur targets for petrol.

Italy takes action to 'free' the press

The writing may be on the wall for a sales monopoly, writes **Robert Graham** in Rome

For a mundane commodity, it can often prove remarkably difficult to buy a newspaper or magazine in Italy.

This is because they are only sold from kiosks or from sbops with an exclusive licence. Outside the centre of the main towns, these are far and few between.

As so often happens when Italian consumers are inconvenienced, a powerful group can be found lurking in the background to protect a vested interest.

The poor availability of newspapers is the result of a tough rearguard action fought over almost two decades by the 37,000-strong newspaper vendors' association to prevent a liberalised sale of the press.

This month, however, the centre-left government introduced legislation to end this restrictive practice. For an 18-month trial period, local authorities will be able to grant licences to bars, bookshops, petrol stations, supermarkets and tobacconists to sell newspapers and magazines.

"We have been pressing for this move for ages and we are convinced that it will stimulate newspaper sales," commented a spokesman for the Fieg, the newspaper proprietors' association.

The Fieg is relying on the liberalisation to boost flagging sales of newspapers and the declining profits of most press groups.

The view is shared by the prime minister's office, which also has responsibility for aiding the media. "The clearest evidence of the crisis in this sector is the progressive decline in daily newspaper sales – going from 115 copies per inhabitant at the beginning of the nineties to 105 in 1995 and last year the decline continued," the prime minister's office noted.

The poor availability of newspapers is the result of a tough rearguard action fought over almost two decades

The Fieg says: "Our aim is not to take business away from the kiosks, but to find new customers."

Estimates are cautioue about the extent to which liberalisation can boost sales. But, if even a small proportion of the 200,000 potential new outlets are used, then the increase could be 5 per cent. At the most pessimistic, the move will halt the decline in sales.

The vendors, on the other hand, believe the newspaper proprietors are over-optimistic about boosting sales. They are convinced that tbey will lose out, even though the Fieg will have to apply the same treatment to the new distributors, letting them take 19 per cent of the cover price of each copy sold.

The vendors, however, have been promised a sop by being allowed to sell non-press items. Already they can sell bus and certain lottery tickets; and they are hoping that this can be broadened.

However, the vendors are enormously restricted by the small size of their kiosks, most of which are already groaning under the weight of the promotional gifts offered by newspaper publishers competing for readers.

Indeed, the vendors fear that they will lose out, especially on profitable magazine sales to supermarkets and bookstores since the latter can afford to display bulky issues for mnch longer.

A first attempt to break this monopoly occurred in 1981 with a law envisaging the sale of newspapers in bookstores. But the vendors' friends in parliament and government saw this came to nothing.

The challenge was taken up buy the anti-trust authority after its creation in 1990. In 1994, parliament even approved a timid experiment to try out a liberalisation scheme in 10 cities. The experiment was snccessfully buried in wrangling by the vendors' lobby.

Even now, the issue is so sensitive that Mr Romano Prodi's government is only presenting a bill to parliament that is an 18-month experiment. Progress will be monitored after nine months with a further review after the full trial period.

If the vendors can prove that they have been seriously disadvantaged, it is not clear what will happen since the government is committed to this liberalisation and would almost certanly like to tackle the even more sensitive monopoly enjoyed by tobacconists on cigarette sales.

Ironically, while the newspaper proprietors bave vociferously sought to break np the vendors' cartel, they themselves have scarcely distinguished themselves with the free market.

For the second time in under two years, the anti-trust authority this week drew attention to an apparent price-fixing cartel. Newspaper prices were liberalised in 1988. The authority observed: "Until now, the main papers have always increased their prices in perfect synchronisation."

But the newspaper proprietors appear to have more influence at court since the anti-trust authority's first complaint sent to the media watch-dog commission has yet to be answered.

The sale of newspapers and magazines in Italy is severely restricted Glyn Genin

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'Quick start' laws passed □ Donors may meet again in July

Bosnian funding hopes raised

By Anthony Robinson, East Europe Editor, in London

An internationally financed, three-year reconstruction plan for war-ravaged Bosnia-Hercegovina worth more than $5bn is faced with a funding crisis after last week's indefinite postponement of a donors' conference by the World Bank and the European Union.

But the Bosnian parliament's approval last Friday of a set of laws, creating a central bank and other key economic institutions for the joint government, has raised bopes that a conference could yet be held in July, before the summer holiday break.

The postponement of the conference put pressure on politiciane from the two component parts of Bosnia, the Moslem-Croat federation and the Bosnian Serb repnblic, to pass the laws, because money was already running out on aeveral projects atarted with international funding. About $1.8bn was approved for the first year of the triennial programme agreed at a donors' conference in 1996, but only about $1.1bn was disbursed.

Nearly 80 per cent of the first year's funds was allocated to projects in the Moslem-Croat federation and to setting up joint institutions, including a taxation administration and a central bank. This compares with $35m disbursed on projects in Republika Srpska, the Serb "entity" recognised in the Dayton peace agreement, by the end of December, 1996.

The donor conference, originally scheduled for last December, is needed to secure funding for the $1.4bn of approved projects scheduled for 1997. But donors have been relnctant to pledge fresh funds, failing passage by the joint Bosnian parliament of the so-called "quick-start" package of laws. The IMF also made clear that Bosnia would not be able to restructure its share of the foreign debt of former Yugoslavia without an IMF standby loan, which would create better access to international capital markets.

The package finally approved last Friday creates the basic economic institutions of the joint state, as agreed under the Dayton peace agreements. In particular, it sets up the new central bank. The bank is designed to work under currency board rules, with a fixed exchange rate for the new domestic currency, and to prevent inflationary deficit financing.

Diplomats in Sarajevo said yesterday that the Bosnian Serbs' approval of the package on Friday marked the first time that they had formally shown acceptance of the joint institutions agreed at Dayton. The World Bank added that approval of the customs and tariffs law paved the way for the freer trade which was vital for economic recovery.

EUROPEAN NEWS DIGEST

Albania poll pact signed

Albania's leading political parties committed themselves yesterday to holding "free and fair" elections on Sunday despite violence that has cost more than 1,500 lives this year. A "Pact for the Future of Albania" was signed in Rome yesterday by leaders of President Sali Berisha's Democratic party, and by the main opposition Socialist and Social Democratic parties.

The international community is planning intensive monitoring, but Mr Fatos Nano, the Socialist leader, warned that there was still a possibility that "the only alternative left to some gangs and structures of the secret police acting under Berisha's orders could be to destroy ballots". The violent anarchy in Albania was triggered by the collapse of a series of fraudulent pyramid finance schemes. Yesterday the International Monetary Fund and the World Bank urged the rapid closure of those that remained. Both said they were ready to provide financial assistance "once Albanian authorities are in control of the country. . . . and have made progress in establishing a sound macroeconomic framework and in dealing effectively with the schemes." *Kevin Done, London*

Lagerfeld loses tax battle

German fashion designer Karl Lagerfeld has been ordered to pay FFr18m ($3m) in back taxes for 1982-84 after an administrative court in Nice rejected his argument that he lived in Monaco, whose residents are exempt from income tax, justice sources said yesterday. Mr Lagerfeld is chief designer for fashion houses Chanel and Fendi and his own signature line.

During the trial on June 4, his lawyer had argued that his client was a German national living in Monaco since 1982 and therefore not subject to French taxation. But the state prosecutor argued that he had several French bank accounts, rented an apartment in Paris and owned property in Brittany. The ruling covers taxes due plus penalties for late payment. *Reuter, Nice*

New nominee for telecom job

Mr Peter Landsberg, former chairman of the electronics and engineering group Alcatel SEL, is the latest person nominated as head of Germany's new telecommunications regulatory authority, which will oversee liberalisation of the telecommunications market from next January. He was proposed yesterday by the federal post ministry's regulatory council, but the appointment has to be approved by the cabinet. The council has twice rejected the government's nominee: Mr Klaus-Dieter Scheurle, a senior post ministry official.

The cabinet last month rejected Mr Arne Börnsen, a senior figure in the opposition Social Democratic party. The regulatory council has proposed instead that he should be one of the two vice presidents of the new authority. *Ralph Atkins, Bonn*

Convictions in arms trials

A German court yesterday found two sons of Abassi Madani, the jailed Algerian fundamentalist opposition leader, guilty of smuggling arms and explosives from Europe to anti-government forces in Algeria. Salim Abassi, 30, and Ikbal, 26, were convicted of explosives offences, belonging to a criminal organisation and forging documents. Salim was jailed for 32 months and Ikbal for 28 months. Two other Algerians, Nasr-Eddine Layachi Hemaz, 31, and Mahmoud Logbi, 26, were sentenced to 31 months and 10 months respectively.

The men, who all denied involvement, have been in custody for almost two years since German authorities cracked down on Algerian fundamentalists using south and west Germany as a base to support an armed conflict against Algeria's military rulers. A court spokesman said they were unlikely to go to jail because they had spent so much time in remand. *Reuter, Düsseldorf*

CSU stands by Emu line

The German Christian Social Union (CSU) yesterday reiterated its differences with its senior coalition partner, the Christian Democratic Union, by insisting that Germany fulfil exactly the membership criteria for a European single currency. Chancellor Helmut Kohl had attacked Mr Edmund Stoiber, Bavaria's CSU premier, for "unusually foolish talk" on the matter but Mr Bernd Protzner, party secretary general, told the Rheinische Post newspaper the CSU stood fully behind Mr Stoiber.

"The CSU has said clearly and unanimously that it will not allow the single European currency to be born with a birth defect," Mr Protzner said. *Reuter, Bonn*

Mobile networks set to soar

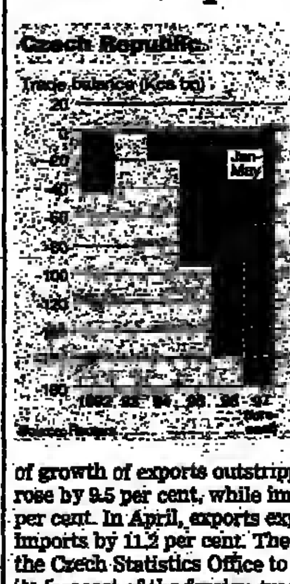
Mobile telephone networks are growing rapidly in central and eastern Europe, and subscribers will more than double to 4.5m within 12 months, predicts Mr Julian Herbert, of the market research company World Cellular Database. He told mobile operators at a conference in Warsaw thet the region's 2m users would reach 13.5m by 2000. Main growth would come in Poland, the Czech Republic and Hungary. Central and eastern Europe had a mere 400,000 subscribers just over two years ago.

The 15 European Union countries currently have 32.9m cellular users. However, because of underdeveloped fixed line networks, mobile users in Poland, for example, talk on their mobile telephones three times longer than their western European counterparts.

Russia, where rapid growth is expected after 2000, has more than 100 companies already operating networks. This year, several new companies are to come into operation in Armenia, Moldova and Slovenia, as well as three operators in Uzbekistan and two rival networks in Georgia. *Christopher Bobinski, Warsaw*

ECONOMIC WATCH

Czech exports accelerate



The cost of the Czech Republic's import bill continued to exceed the value of its exports last month but restrictions imposed in April on the import of certain consumer and agricultural goods and the devalued koruna appear to be working, official figures showed yesterday. The foreign trade deficit widened by Kcs11.2bn ($350m) in May, bringing the deficit for the first five months of the year to Kcs64.6bn. However, for the second successive month, the rate of growth of exports outstripped that of imports: exports rose by 9.5 per cent, while imports increased by only 0.5 per cent. In April, exports expanded by 23 per cent and imports by 11.2 per cent. The figures for May prompted the Czech Statistics Office to revise slightly downwards its forecast of the foreign trade deficit for the full year, from Kcs200bn to between Kcs160bn-Kcs180bn. It said the current account deficit should reach 6.7-7.3 per cent of gross domestic product, compared to 8.6 per cent last year. *Vincent Boland, Prague*

■ German producer prices rose 0.2 per cent in May from April, and were up 1.1 per cent from a year earlier.

NEWS: EUROPE

Travel industry looks for boost from the euro

Greater price stability and removal of exchange rate risks are two of benefits foreseen, writes **Scheherazade Daneshkhu**, Leisure Industries Correspondent

Preparing for Emu

Long-haul visitors to Europe are faced with several obstacles when they travel to more than one country within the continent. The visa requirements, the problems of communicating in a variety of languages and the need for so many different currencies can be off-putting.

The European Union's travel industry believes that, by eliminating one of these irritants, economic and monetary union will lead to an increase in travel to and within Europe. Business travel volumes would also be likely to increase.

"The travel industry is in favour of the euro, because we expect it to boost tourism and therefore increase the turnover of local agents," says Mr Michel de Blust, secretary-general of Ectaa, the Brussels-based European association of travel agents and tour operators.

Emu should also lead to greater price stability by removing exchange rate risks and fluctuations. This is particularly welcomed by tour operators, which book hotel rooms without knowing what the conversion rate of the local currency will be when they come to set package holiday prices some months later. They are obliged to hedge to cover their exposure.

"The single currency will remove exchange rate volatility," says Mr Lance Moir, finance director at First Choice, a UK-based tour operator. "That will take some of the uncertainty out of tour operators' profits, which could lead to sharper pricing."

Yet many aspects of the impact of a single currency are still guesswork, particularly in the UK, the largest package holiday market. The Association of British Travel Agents hopes that a study it commissioned in February will throw more light on the subject. Even if Britain does not join Emu in 1999, its travel industry will still be affected by monetary union.

The study by the Centre for Economics and Business Research is expected to be released next month and will examine the impact of a single currency on holiday prices, on consumer spending and whether the effect on business and leisure markets is likely to be different. It will also count the cost of changeover for technology and finance departments.

Ectaa puts changeover costs at between 1.8 per cent and 3 per cent of a travel company's turnover in a briefing memo on the impact of the euro on the travel industry. This is a significant cost for the low-margin industry which makes gross profit margins of 10 per cent in a good year.

Travel agents with a large foreign exchange business will also suffer loss of income, particularly if Spain joins Emu at the earliest stage in 1999. More than 40 per cent of UK package holidaymakers go to Spain, which is also the most important destination outside Germany for German holidaymakers.

> With easy price comparison, simple products like air fares could fall

Thomas Cook, the UK travel agent owned by the Dusseldorf-based Westdeutsche Landesbank, which claims to have more than 20 per cent of the British travel foreign exchange market, acknowledges that Emu will have a significant impact on its business but says that it is exploring other ways of replacing the lost income.

These include new products such as Visa Travel Money, which is being piloted in the UK and Far East. This acts as an electronic travellers cheque by allowing users to buy a card with a predetermined value to withdraw cash from cashpoint (automatic teller) machines.

While some tour operators believe the costs of changeover will push up holiday prices, others think the euro will foster more competition through its greater transparency which could lead to a fall in prices.

By making price comparisons easy, straightforward products, such as air fares, could fall, believes Mr de Blust. "If you combine monetary union with the development of on-line sales, such as the internet, the euro will probably encourage a decrease in prices in those markets which are expensive compared to others."

Those living near a border will be particularly well placed to take advantage of pricing differences by comparing the euro price on each side of the border and then doing their travel shopping in the country with the cheaper price.

Although this effect could spill over into package holiday prices, these are perhaps too culture-specific to lead to a fundamental shift in holiday habits. "Do you really think British people would like to travel with a German tour operator and be welcomed in German at their destination?" asks Mr de Blust.

Mr Gerd Hesselmann, president of Deutscher Reisebüro Verband, one of Germany's largest travel agent companies, doubts that Emu will herald lower package holiday prices because of the industry's low profit margins. "We already have a highly competitive market and there's no room for prices to fall, otherwise companies will produce losses."

Where competition is likely to be at its keenest is between the monetary union countries and those outside it. Destinations such as Spain and Italy, which have had relatively weak currencies in Europe, could find themselves at a competitive price disadvantage to Turkey, Greece and North Africa if they join a strong euro.

The German travel industry is particularly fearful of a potential downturn in the Spanish market, since many of its package holiday companies, including TUI, Europe's largest in turnover terms, own hotels in Spain. "This is our main concern about Emu, particularly since we would like the euro to be strong," said Mr Hesselmann. "We do not want the euro to become a competitive tool for different companies, so we are working towards a common standard for the industry."

AVAC, the association of Catalan travel agents, sees no reason for Emu to push up Spanish holiday prices. But if it does, Spain will compete on quality of service and new products.

Emu: who's going to make it

J P Morgan Calculator June 16 1997

	Yesterday	1 week ago	4 weeks ago
Germany	100%	100%	100%
France	100%	100%	100%
Belgium	100%	100%	100%
Portugal	81%	77%	83%
Spain	78%	76%	80%
Finland	74%	72%	79%
Ireland	47%	44%	75%
Sweden	70%	62%	63%
Italy	66%	60%	62%
Denmark	41%	38%	47%
UK	34%	38%	44%

The Emu calculator reveals, real time, the probability of individual countries joining Germany in a monetary union in 1999 implied by financial market prices. Market probabilities are derived from the interest rate swaps market, in which investors swap floating-rate interest payments for fixed-rate ones.

The implied probability of Italy participating in Emu in 1999 can be calculated looking at where the spread between post-1999 lira and D-Mark swap rate lies, between the zero level implied by Emu and the level we would expect if Italy is not in Emu. Italy's non-Emu spread is estimated by currency strategists at J.P.Morgan using the pre-1992 correlation of the lira-D-Mark swap spread with similar spreads outside Europe.

Salomon study foresees acceleration in trend from deposits to direct investment in securities

Emu set to force change on basic banking

By Wolfgang Münchau, Economics Correspondent

Economic and monetary union could have serious commercial implications for traditional banking, because it will accelerate the trend from bank deposits towards direct investment in securities, according to a study by Salomon Brothers.

The paper* argues that the move towards direct investment in securities is ultimately driven by technology: securities dealing via the internet, for example, has already brought down transaction costs.

But, without Emu, technology alone is unlikely to deliver change in the short-term. European bank customers do not have the same non-discriminatory access to the securities markets as North Americans, because several types of fixed-interest products are not available in Europe. This gives traditional commercial banking a competitive advantage.

Mr Graham Bishop, European financial affairs adviser at Salomon's and author of the report, said: "If Emu has the side-effect of bringing those assets to the market, then the playing field will tilt a little. If technology shifts the 'management expenses' goal posts as well, then we may be in a new ball-game."

The analysis assumes that Emu goes ahead on time in 1999 with a broadly based membership eventually encompassing the whole of the European Union.

The structure of the US bond market is far more diverse than Europe's, with securities ranging from "risk-free" treasuries, to municipal bonds, mortgage bonds and investment-grade corporates, all the way down to junk bonds.

In Europe, however, a lack of critical mass has prevented the emergence of a large and liquid market in several fixed-rate segments.

"The key problem for launching a new sector is to get the initial critical mass. Investors are reluctant to buy paper that is both unfamiliar in its credit nature and obviously destined to be illiquid. This is where Emu may have a key influence," Mr Bishop said.

The introduction of the euro would immediately eliminate currency matching rules, which force institutions to limit their currency risk exposure. This by itself could lead to an increase in demand for a host of European securities, whereas currency matching rules previously choked off that demand.

The introduction of the euro is set to occur at a time of significant technological change, especially in telecommunications. Investors in the future will have more direct access to information than at present, thereby reducing the need for intermediaries.

In addition, ageing populations, living off the income of their investments, could be expected to give an additional boost to demand for fixed-interest securities, and for a more varied risk profile than is currently under offer.

Mr Bishop concludes that "the simple model of a bank – taking a deposit, making payments and giving loans – will see increasing pressure from competition opened up by the combination of Emu/single market and technology. . . . The financial institutes that intermediate these flows are already into a process of dramatic transition. The euro will simply accelerate and intensify that."

* *Graham Bishop, Post Emu: Bank Credit v Capital Markets, Salomon Brothers, June 1997*

NEWS: EUROPE

EU chief irks Spain over fish quotas

By Neil Buckley in Brussels

The European Union was embroiled in another fish row last night after Spain accused Mr Jacques Santer, European Commission president, of going behind its back in suggesting to the UK government a way to tackle "quota-hopping".

Mr Abel Matutes, Spanish foreign minister, has written to Mr Santer suggesting that he failed in his "basic duty" of openness to all EU states by not consulting Spain before he handed a letter on the issue to the UK prime minister at last week's Amsterdam summit.

Mr Tony Blair presented the letter to the UK parliament as evidence of "substantial progress" towards solving the problem of quota-hopping, whereby mainly Spanish fishermen legally buy British boats and licences, enabling them to fish for UK quotas.

But the strongly worded Spanish complaint, seen by the FT, makes clear Spain's anger over Mr Santer's letter and its readiness to challenge any new UK measures in the European Court.

It will fuel fears voiced by British fishermen that the Amsterdam letter will not provide a lasting solution to quota-hopping.

Spain insisted all mention of the issue be kept out of the Amsterdam treaty conclusions. Mr Matutes wrote that the "opportunism" of the letter, handed over in the margins of the summit, and its contents "caused me great concern".

"It is very surprising to me that in a case which obviously involves the legitimate interests of my country, you did not take into account the observations we transmitted to you on this question," he wrote.

Mr Matutes said Spain had won assurances from the Commission during negotiations leading up to Amsterdam that UK action to curtail the activities of Spanish-owned boats would contravene the EU treaty.

"It seems to me the Commission's most basic duty is transparency towards [EU] states," the Spanish foreign minister wrote.

"If the institution you preside over has an opinion that [EU] law...permits an interprstation similar to that which you transmitted to Prime Minister Blair,

Santer's letter to Blair suggests that the UK could force foreign-owned boats to land up to half their catch in Britain

this opinion should have been made known to all member states."

At no point, he said, did Mr Santer express such views to Spain during summit negotiations.

Mr Santer's letter suggested the UK could force foreign-owned boats to land up to half their catch in UK ports, employ British crew members, or start fishing trips in Britain.

Denmark has similar legislation.

Commission officials said the letter was "legal clarification", based on expert opinions and case law, in response to a request from the UK.

But Mr Matutes said Spain had won four European Court rulings defending its right to buy access to UK quotas.

"We have had four judgments favourable to Spain," one Spanish diplomat warned.

"If the UK takes new measures, we will have a fifth."

Santer's trusted ally takes helm in Brussels

Lionel Barber on Carlo Trojan, the European Commission's newly appointed secretary general

Carlo Trojan: veteran fixer who made his reputation in the backstage diplomacy easing the path to German unification

Power moves in mysterious ways in Brussels, and there are few more shadowy practitioners than Mr Carlo Trojan, the newly appointed secretary general of the European Commission.

A veteran fixer who made his reputation in the backstage diplomacy easing the path to German unification, Mr Trojan, 55, was a natural choice. He replaces Mr David Williamson, a former senior UK civil servant who is retiring after 10 years in the top job.

The speed of Mr Trojan's appointment took many people by surprise. The Commission president, Mr Jacques Santer, was evidently determined to prevent the post becoming part of a trade-off involving the head of the future European Central Bank and the new "face" to represent EU foreign policy.

Mr Trojan's appointment also showed that Mr Santer's team wants to have a trusted ally at the helm as the Commission braces itself for EU enlargement to central and eastern Europe.

Many belisve this will require a revolution in a bureancratic cnlture still steeped in the French tradition set by the wily Emile Noel, the first Commission secretary general from 1968 to 1987.

Ths question is whether Mr Trojan, who has spent almost 30 years with the Commission, is too much of an insider to push through the reforms which the former Commission president, Mr Jscques Delors, largely ignored in favour of grander projects such as monetary union.

"Carlo knows where all the bodies are buried," says one colleague, "but he may want to let them rest in peace."

Mr Trojan (pronounced Troyan) is a Dutch national born in Florence and married to a Dane.

He speaks at least five languages fluently. This cosmopolitan mix, coupled with his training as a lawyer and his bulldozer style, makes him a model Eurocrat.

He first made his mark as chief of staff to Mr Frans Andriessen, the long-serving Dutch commissioner in the early 1980s. But for the past decade, acting as Mr Williamson's deputy, he has become a member of the charmed circle of officials who prepare decision-making at the increasingly important European Council summits.

These declsions oftsn require "package deals" – trade-offs in which no country, big or small, can be seen as a loser.

Mr Trojan has been at the centre of such deal-making, notably over the Delors II spending programme agreed in Edinburgh in 1992; the 1994 agreement involving sites for a dozen new EU agencies; and the terms of EU enlargement to Austria, Finland, and Sweden.

His most treasured moments came between 1989 and 1990, when hs was dispatched to former East Germany to hold secret talks with the communist authorities about the prospective accession of a united Germany to the EU.

These were the twilight days of the self-styled German Democratic Republic, the time between the fall of the Berlin Wall and the completion of German unification.

Stepping on to the tarmac of east Berlin's Schönefeld airport as the first EU diplomat on East German soil was an unforgettable experience, he later recalled.

His latest task is steering the Commission's "Agenda 2000" project, overseeing the impact of eastern enlargement on the common agricultural policy, regional aid and ths EU budget. The papers, due for release in mid-July, will also includs opinions on which central and eastern European countries are ready to open accession negotiations with the EU, most likely early next year.

Those who know Mr Trojan say he holds one principle as sacrosanct in enlargement preparations: the onus must be on the new democracies to adapt to ths EU and not vice versa.

Two conclusions follow: those in Britain and Scandinavia who think that they can use enlargement of the EU as s lever to dismantle the CAP or regional aid are likely to be disappointed; and those betting on the first wave of new members arriving in 2002 may be over-optimistic.

One test of Mr Trojan's influence is how far he can adapt the Commission to the "post-Delors era" – a period marked by no increases in the EU budget beyond inflation, no broad extension of EU-wide powers (with the exception of monetary union), and a tacit agreement that foreign policy and defence remain clearly the preserve of nation states.

On sound finance, Mr Trojan is as hard-nosed as any of his Dutch compatriots. He also brings buckets of common sense to the job, as Mr Williamson did. If there are doubts, they centre on how far he will press the accelerator on internal Commission reform.

This means breaking the stranglehold of national patronage, rewarding merit, and cutting down individual fiefdoms run by commissioners and directors-general with too much spare time on their hands, especially in the fragmented area of trade and external political relations.

Mr Erkki Liikanen, the Finnish budget and personnel commissioner, is working closely with Mr Trojan and Mr Jim Cloos, the president's forceful chief of staff. The extent to which this troika agree will determine whether the Commission stagnates or hits cruising speed in the next century.

Madrid government wants tougher line on pay

By David White in Madrid

Spain's centre-rigbt government, increasingly alarmed hy a rising pay trend, has begun to pnt pressure on companies to take a tougher stance on wage demands.

A survey by the national statistics office sbowed that the average pay of Spanish employees increased by 4.2 per cent in the first quarter of the year compared with the same period of 1996, almost twice the rate of inflation.

The government is threatening to reconsider planned tax cuts, which are anxiously awaited by business, if wage rises do not come down.

After a cabinet meeting last Friday, Mr Rodrigo Rato, economy and finance minister, issued a warning against "excessive wage incrsases", wbich he said endangered jobs and economic recovery prospects.

He said recent above-inflation tocreases were incompatible with the government's aim of redncing unemployment, running at an official rate of 21.5 per cent. They also put at risk further cuts in interest rates and tax reductions promised hy the government.

Tax changes, part of the Popular party's platform in its successful general election campaign last year, have already been put off pending Spain's effort to meet the budget requirements of European monetary union. Bnt Mr José Maria Aznar, ths prime minister, said earlier this month that the government would be ready to press ahead with tax reforms next year.

The changes would be expected to include a reduction in the top marginal rate of income tax, currently set at 56 per cent.

The head of the CEOE employers' organisation, Mr José María Cusvas, said yesterday he agreed with the government's case for curbing pay increases. However, the organisation claims the pay figures published in ths survey exaggerate the real trend and "most companies are not doing anything crazy".

It cites the results of collective wage agreements so far this year showing an average rise of 3.2 per cent. Economists say, the increases are in large part a compensation for the erosion of real earnings over 1995 and 1996.

Pay agreements have been based on initial expectations of 2.6 per cent inflation this year.

However the inflation rate has fallen sharply – reaching 1.5 per cent in May, the lowest in Spain since the 1960s – and is now officially forecast at 2.2 per cent, at most, at the end of the year.

A senior government official said companies were agreeing to pay rises about half a percentage point higher than the desirable rate, and more in some sectors. "Thsy havs to be responsible," he added.

Wage behaviour has been a serious concern at the Bank of Spain, the independent central bank, and is seen as one of the main factors behind its cantious policy on lowering interest rates.

The bank is due to decide today whether to make a further cut in its benchmark rate from the record low of 5.25 per cent set in mid-May.

NEWS: INTERNATIONAL

Namibian economy will depend heavily on outcome of Namdeb's high-tonnage, low-cost mining strategy

Diamond company digs in for better cut

Fundamental changes are taking place at Namdeb, the diamond mining company on which Namibia's economy depends heavily – it accounts for 10 per cent of the African country's gross domestic product, 30 per cent of exports, is the biggest taxpayer and, apart from the government, the biggest employer.

For 70 years a rich haul of gem diamonds has been recovered from a 150km stretch of beach near the mouth of the Orange River on the Atlantic coast called Sperggebiet, or "forbidden territory."

But the rich ore deposits have gradually been mined away and only low grade deposits remain. Namdeb has had to reappraise its mining methods. The company, jointly owned by the Namibian government and De Beers of South Africa, is switching to high tonnage, low cost mining.

The impact is already being felt.

Mr Mike Wittet, Namdeb's general manager, says an essential component of the drive to cut costs is the need to reduce the number of employees.

He aims to reduce the number, 4,781 in 1995, by nearly 40 per cent to 2,900 in 2002. Last year 487 jobs were lost. In 1997 another 580 will go. This is in a country where the total population is only about 1.6m.

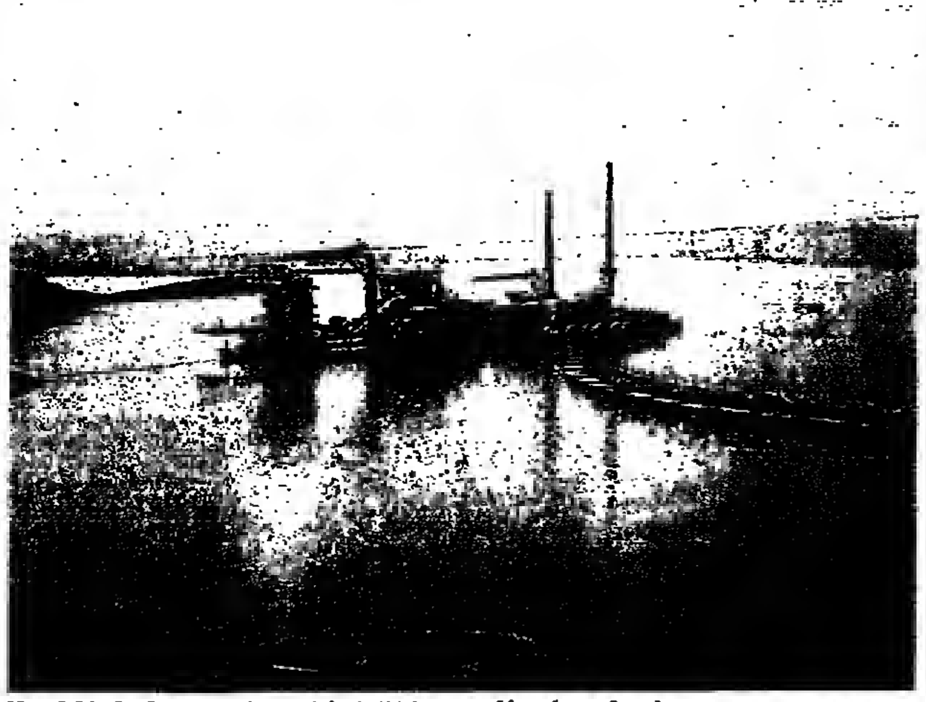
Namdeb is also making plans to hand over to local people Oranjemund, the company town it built from its own resources. Oranjemund has a population of about 10,000 and at present Namdeb runs and finances services which elsewhere in Namibia would be the responsibility of the state: a hospital, school, technical college, water and sewerage provision as well as providing houses, streets, parks and sports fields.

A start has been mada and maintenance of parks is now in the hands of another company.

Negotiations are going on with the union so a town council can be set up and the provision of services at Oranjemnnd gradnally handed over.

It will not be easy. The best restaurant in town has been taken back into Namdeb's control because when "out-sourced" it did not meet an acceptable standard.

The high-volume, low-cost mining approach is epitomised by Namdeb's US$40m dredge project. This huge complex consists of an 840 tonne dredge, floating on an inland pond, an associated floating treatment plant, 400 metres of floating walkway



Namdeb's dredge project can strip 2,500 tonnes of beach sand an hour — Kenneth Gooding

pontoons and a well field of 70 bore holes.

The dredge is capable of atripping 2,500 tonnes an hour of beach sand and will move so quickly it will enable the sea to be pushed back so that 300 metres more of the beach can be mined. Its task is to shift 46m tonnes of waste material so that the low grade diamond bearing ore can be mined from largely waterlogged areas.

Namdeb hopes the dredge, which started up last month, will have a startling impact on prodnctivity by improving the tonnes per man shifted each year by 102 per cent to 7,000. "This is not tha most lncrative of projects but the old days of enormous returns are over," says Mr Gerald Boting, Namdeb's assistant general manager, production.

The logistics of the mining process are mind-boggling. Last year Namdeb, which owns the biggest fleet of earth moving equipment in the southern hemisphere, shifted 53.8m tonnes of sand and rock. This will increase tn about 72.5m tonnes in 1997 so that the company's total rough (or uncut) diamond output remains about 1.3m carats for the next ten years (each carat weighs only one fifth of one gramme). The effort is worthwhile because 95 per cent of the diamonds in the Sperggebiet are of gem quality, and usually quite big. Last year Namdeb produced 1.36m carats.

Mr Boting says Namdeb is spending four times the 1993 rate on exploration, looking at small "pocket" beaches along the coast that might contain diamonds and increase the life of the mine. However, exploration expenditure on land will be wound down after annther year because all potential areas will have been investigated.

Achievement of the annual 1.3m carat target will depend on an increase in diamonds mined from the sea bed off the Namibian shore. Debmarine, a wholly-owned De Beers subsidiary, hired as a contractor tn Namdeb and operating in deep sea, produced 470,892 carats out of the 1.3m total last year. Five other contractors, operating in shallow water, produced 118,226 carats.

Namdeb keeps its financial statistics secret but analysts estimate it receives an average of US$315 a carat for its diamonds to give it annual revenue of $428m.

Kenneth Gooding

Israel cabinet 'failed to discuss cuts'

By Judy Dempsey in Jerusalem

Officials of Israel's finance ministry confirmed yesterday that plans for budget cuts were not discussed at a crucial cabinet meeting last week, despite an announcement by Mr Benjamin Netanyahu, the prime minister, that he would press ahead with them.

Some economists claimed Mr Netanyahu was dodging unpopular measures before a no-confidence vote today.

Mr Arlel Sharon, infrastructure minister, and the man most likely to be appointed finance minister in a reshuffle expected this week, was regarded as even less likely to maintain a tight fiscal policy, they added. Mr Dan Meridor resigned as finance minister last week after a long power struggle with the prime minister.

"If Sharon gets the finance ministry, I cannot see him continuing with a tight fiscal policy," said Mr Gad Haker from Ilanot-Batucha Investments.

The budget cuts, agreed during marathon negotiations between Mr Netanyahu, Mr Jacob Frenkel, governor of the Bank of Israel, and Mr Meridor, were part of a larger package which included speeding privatisation, introducing foreign exchange liberalisation and changing the cnuntry's exchange rate system.

Instead, the cabinet focused almost exclusively on exchange rate policy. The changes, opposed by Mr Meridor, were put to a vote which was the catalyst for his resignation.

The cuts were aimed at reducing the budget deficit from 4 per cent of gross domestic product in 1996 to 2.8 per cent by the end of this year.

They would have entailed trimming expenditure in the housing and education ministries, leaving the infrastructure ministry untouched. "We can now confirm the budget was not even discussed despite the agreement to do so," a finance ministry official declared.

Netanyahu: cabinet focused almost exclusively on Israel's exchange rate policy

Mr Netanyahu himself confirmed he would press ahead with the cuts and other measures a week ago. "I have no idea why the budget was not discussed," an official from the prime minister's office said.

Besides concern that fiscal policy could be loosened, economists are increasingly pessimistic about the introduction of long overdue structural reforms. Mr Netanyahu has repeatedly promised structural reforms designed to break up the large monopolies that hinder competitiveness.

However, despite plans to break up the public transport, utilities and agricultural monopolies, no progess has been made.

"I am no longer convinced Netanyahu has the will to take on the lobbies or has the commitment to free the economy of monopolies," one of his economic advisers said.

Kazakh pension reform to aid capital markets

By Charles Clover in Almaty, Kazakhstan

For reformers in Kazakhstan, it is a happy coincidence that the man responsible for reforming the country's pension aystem is also in charge of jump-starting the country's capital markets.

Mr Grigory Marchenko, seen as Kazakhstan's most talented economist, is head of the State Committee on Securities, which has the job of developing Kazakhstan's stock and bond markets. He has also been asked to set up a system of private pension funds which may be these markets' best customers.

At present, Kazakh workers contribute 20 per cent of wages to the state pension system which recycles these contributions immediately into pensions, rather than into savings. But the state pension fund is $500m in debt, and privatising it is a top priority for the government.

"A pay as you go pension system is viable as long as the population is growing," said Mr Marchenko, who explained that ageing and immigration patterns had caused imbalance between pensioners and workers in Kazakhstan. "But noncompliance is a major problem," he added, relating the pension debts to the broader crisis of payment arrears in the Kazakh economy.

A June 11 law passed by the Kazakh parliament is an attempt to solve the long-term demographic problem by making pension fund contributions individnal. This would have the effect of increasing the savings rate in Kazakhstan, but would worsen the short-run pension fund deficit.

The law calls for half the 20 per cent mandatory pension contribution to go into private pension funds starting in 1998, whila the other half continnes to go into the pay as you go state system. The law still has not been signed by President Nursultan Nazerbaev, who may be seeking to change some details.

The private pension funds would invest these contribntions, equal to about $50m per month, in Kazakhstan's banks and financial markets, which suffer from a lack of domestic capital. Kazakhstan's ratio of bank deposits to gross domestic product is among the lowest in the world, and the banking system is in turmoil because of an inter-industry payment arrears crisis. "The banks here only do trade finance and government bonds," said one economist.

Pension reform may be a tool to get domestic investment moving. "You could call it forced savings if you want," said Mr Marchenko. "We call it mandatory contributions."

Mr Marchenko says the assets of the private pension funds would be closely regulated, though other economists say real emphasis may be placed on investing in Kazakhstan's budding stock market.

Plans are being laid to offer 5-10 per cent stakes in many of Kazakhstan's blue chip, formerly state-owned, corporations on the stock market. These are mostly in the metals sector, but include a bank, an oil company, and Kazaktelecom, the telecoms monopoly.

Long term, the Kazakh government sees increased oil revenues as the way to fund the pension fund deficit. Once a planned 1m barrel a day oil pipeline from the Caspian Sea to the Black Sea is completed early next decade, Kazakhstan will stand to earn billions in extra tax revenues.

NEWS: WORLD TRADE

Getting a line on Asian telephony

Internet technology is playing havoc with operators' plans, James Kynge writes

The cost of faxing a 42-page document from New York to Tokyo via the conventional telephone system is US$28. The same material transmitted over the internet costs less than one US cent. Savings are similar for voice calls. International calls can be made over the internet for the price of a local call.

This may be heartwarming for phone users but is causing unease among telecoms companies in Asia, where internet telephony is starting to catch on. Like "call back" services, internet telephony may force Asian telecoms operators to cut international phone rates.

This could damp already modest profit outlooks for operators in the region. "If internet telephony takes off, there will be an acceleration in the rate at which Asian telecoms companies rebalance tariffs," said Mr Neil Juggins, Asia Telecoms analyst at Paribas Capital Markets in Singapore.

Making phone calls over the internet has for some time been seen as an imperfect technology. Ths voice has to be digitised and packaged to traverse the internet; the process often makes the voice sound tinny and introduces an annoying time lag into conversations. Recent advances are eliminating both defects.

Dialogic, a US company, says sales grew 40 per cent in Asia last year to contribute $30m of the company's total $213m revenue. The company has recently set up offices in Bangalore, Beijing, Hong Kong, Singapore, Sydney and Tokyo.

It costs about $2,000 per line to install software and a gateway which allows users to conduct internet telephony, said Mr Howard Bubb, Dialogic's president and chief executive officer.

There are two main types of customer: telecoms operators looking to offset falling margins by charging customers the going international rates for a service which costs next to nothing, and corporations aiming to cut business costs.

While telecoms companies generally require lots of equipment – enough to dedicate 100,000 lines to internet telephony – corporate customers usually need much less, Mr Bubb addad. His company was in sales talks with many of Asia's telecoms operators.

To work Dialogic'a system, both parties have to know in advance when a call is coming in order to switch on compntars and prepare phone links. But a small Singaporean company, Innomedia, aims to circumvent this with InfoTalk, a product it plans to launch in the city state by October.

InfoTalk is a box (no computer is required) attached to a regular phone. Users must press a # sign after dialling a number, but apart from that, the procedure is the same as using a regular telephone, said Mr Lim Jew Tim, director of sales at Innomedia. This "grandmother-proof" (user-friendly) prodnct was aimed at the retail market and would sell for US$300 a box.

> 'This is new technology. We cannot reject it. We have to face it and be ready to face it'

Such technology is not expected to capture a significant market share for at least a year or two in Asia, but its implications are contributing to gloomy earnings forecasts for many a former telephone monopoly.

By and large, Asian telecoms markets have deregulated more slowly than those in the west, and tariffs are higher. Formerly monopolistic operators have in many cases planned a gradual transition to full competition, allowing them to continue reaping handsome margins meanwhile.

But new technology is playing havoc with their liberalisation plans.

Examples from the developed world show how vulnerable phone companies can be. KDD, Japan's international operator, could lose as mnch as 12 per cent of its voice telephony to the internet by 2001; Deutsche Telekom could lose 6-7 per cent, a study by UK consultants, Tarifica, shows.

The task of "rebalancing" – raising local phone rates to offset falling international tariffs – is fraught with difficulties. Many Asian governments take pride in keeping local rates low and have hoped rebalancing could be achieved gradually.

Some governments have begun to respond with regulations. Singapore, vigorously promnting internet use, has ruled internet telephony equipment may be sold but not advertised.

An executive with China Telecom, China's giant operator, said regulators were studying the new technology. "This poses some threat to our traditional business, so we need to study it. But anyway, internet telephony is not easy to control. There are more than 100 ISPs (internet service providers) in China."

Mr Nurhandayanto, senior manager of engineering and marketing support for Indonesia's Satelindo, said: "This is new technology. We cannot reject it. We have to face it and be ready to face it."

One response to the loss of international voice traffic by operators in the west, said Mr Bubb, had been to raise the rent internet service providers pay for leasing lines from telecoms groups.

But such tactics may ultimately be futile. Some think the internet has the potential to move from the periphery of telecoms to the mainstream. It is possible that in the futura, telecoms will merely be one part of the internet's capabilities.

"Given the significance of internet as the emerging communications mainstream, (operators) need to watch out for becoming vulnerable because of their weak internet position," said Mr Petri Pnyhonen, vice-president of wireless date server systems at Nokia Telecommunications.

The convergence of telecoms and the internet underscores what Mr Frank Blount, chief executive officer of Telstra, the Australian telecoms giant, predicts will be an increasing number of tie-ups between telecoms operators, computer firms, software designers and media companies. Eventually, it may be difficult to distinguish between them.

Brussels worried by law on Burma

By Neil Buckley in Brussels and Agencies

The European Commission said yesterday its complaint to the World Trade Organisation abont a Massachnsetts law barring procurement from companies trading with Bnrma reflected concern that several US states were preparing potentially extra-territorial laws.

Sir Leon Brittan, European Union trade commissioner, wrote late last week to Ms Charlene Barshefsky, US trade representative, before filing the complaint in Geneva on Friday.

The move signals European disquiet that a number of US states, apparently taking their cue from federal laws such as the Helms-Burton Act on trade with Cuba and D'Amato legislation on Iran and Libya, were drawing up laws affecting foreign and US companies.

The Massachusetts state law bans government procurements from US or overseas companies with interests in Burma. The EU says while it is concerned about Burmese human rights, such laws must not be extended to non-US groups, and can hinder attempts to bring about democratic reforms.

The Commission issued the complaint under the WTO Government Procurement Agreement, designed to prevent procurement decisions being based on political factors. The complaint is under Article 22, allowing for preliminary talks before formal consultations, rather than under Article 21, which might lead sooner to a disputes panel.

"We greatly appreciate efforts by the federal administration to amend the [Massachusetts] law," a Commission spokesman said. "But we are also leaving the door open for the administration to make more efforts. What we are trying to do is to nip a rather nasty trend in the bud." Ms Barsbefsky said at the weekend she regretted the EU move.

WORLD TRADE NEWS DIGEST

IT group in standards deal

A group of 11 leading information technology companies in the US, Japan and Europe have agreed to adopt common standards for mobile network computers to support the growth of a new market for pocket-sized communicators.

The consortium members include Network Computer, a subsidiary of Oracle, the US-based network computer pioneer; Fujitsu, Hitachi, Mitsubishi Electric and Toshiba of Japan, IBM and Apple of the US, as well as Netscape Communications, Sun Microsystems, Lotus Development and Nokia, the European cellular phone maker.

New products based on the standards will enable users to log on to corporate networks, access the internet and usa e-mail. Toshiba and Hitachi plan to launch products using the new specifications in the autumn, while most of the others expect to launch products within a year or two. *Michiyo Nakamoto, Tokyo*

Microsoft and Oracle clash, Page 19

Natsteel in mill link-up

A joint venture between Natsteel, the Singapore steelmaker, and companies controlled by Mr Benjamin Yao, the Filipino-Chinese businessman, will open a 2.26bn pesos ($86m) steel rolling mill north of Manila, the Philippine government's Board of investments (BOI) has announced.

Steel Asia Manufacturing plans to open a plant in Bulacan province with an initial capacity of 200,000 tonnes in October. This will rise to at least 500,000 tonnes during its fifth year of operation. The steel mill will use the continuous horizontal and vertical rolling technology and will import raw materials from Eastern Europe, South America and Australia. The steel products will be sold in the local market.

The new group will be majority owned by Mr Yao's Peninsula Steel Manufacturing and Inland Metal Manufacturing. *Justin Marozzi, Manila*

Power plant plan for China

Three Singaporean partners have teamed up with a Chinese consortium to build a US$560m power plant in China's Anhui province.

The move comes as foreign companies are more hopeful of clinching deals following the success of China's build-operate-transfer power project, Laibin B, a FFr3bn ($510m) plant being developed by GEC-Alsthom and Electricité de France, the French utility. The Singapore consortium, Singapore Power, United Engineers and the Government of Singapore Investment Corp, will take a 49 per cent stake in the project. Four Chinese companies will hold the remaining 51 per cent. *Louise Lucas, Hong Kong*

Indonesia delays trade details

The Indonesian government has delayed until next month the announcement of its annual trade deregulation package, which is expected to contain reductions in tariffs and administrative red tape. The minister for production and distribution, Mr Hartarto, said the package would not be announced until July despite the usual procedure of unveiling measures aimed at bolstering economic growth a month before donor countries meet to decide on aid to Indonesia. The Consultative Group on Indonesia (CGI), a group of donor nations and financial institutions headed by the World Bank, is due to convene in Tokyo on July 16. *Manuela Saragosa, Jakarta*

Italy's tool industry looks to Romania

By Peter Marsh

The Italian machine tool industry has set up a consortium to buy low-cost parts from Romania – a further sign of increasing trade in engineering components between western Europe and the former communist bloc.

The partnership has been set up by the Italian machina tool trade association (Ucimu) on behalf of about 35 machine tool makers in Italy, Europe's second biggest supplier after Germany. The association is also looking at the possibility of using the consortium to take a controlling stake in the three Romanian companies with which it has set up a partnership.

The links underline how companies in western Europe can use trade with the former communist nations to boost their own competitiveness.

According to Ucimu, components such as metal castings can be bought from Romania for roughly a third less than the price in western Europe, helping to reduce overall machine tool manufacturing costs.

In the past year, the association has bought some L6bn ($3.5m) worth of parts from three Romanian engineering companies with which it has formed a partnership.

Mr Alfredo Mariotti, Ucimu director-general, said that in the next year he expected the figure to double.

The purchases are mainly of uncomplicated, "low-tech" parts and are a relatively small part of the L6,400bn a year sales of the Italian machine tool industry, which encompasses some 500 companies. The supply deal adds to evidence that purchases from eastern Europe are becoming a bigger part of western engineering companies' manufacturing strategies.

A survey by the German machine and plant building association (VDMA) showed purchases of parts by German engineering companies from eastern Europe were running at nearly DM2bn ($1.15bn) a year, up from almost nothing in 1990.

Ucimu began establishing contacts with Romania after initially examining the Czech Republic as a potential supply base. Because of strong links in recent years between Czech and German manufacturing businesses, the prices of Czech parts had risen to the point where it was unattractive for Italian companies to buy them.

A series of supply pacts with German companies, in which in some cases the German businesses had taken stakes in Czech companies, meant that prices of Czech parts rose close to German levels and were now only 10-15 per cent less than Italian ones, Mr Mariotti said.

The Italian machine tool builders in the purchasing consortium include Gildemeister Italiana, Mobara, Rambaudi Industriale, Gerardi and Streparava.

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Vietnam's leaders ready to step down

By Jeremy Grant
in Ho Chi Minh City

Two of Vietnam's top three ageing communist leaders have indicated they will relinquisb their jobs in about three months, ending a leadership succession stalemate that has all but frozen economic reforms for almost a year.

Diplomats said the decision may not produce significant changes in economic policy as the two were expected to stay in the ruling 18-member politburo to oversee transition to a younger generation.

That could act as a drag on reform in spite of calls from the International Monetary Fund and the World Bank for swift action to tackle Vietnam's crippled banking system and to reform loss-making state enterprises.

"I don't think we're going to have big changes. They [the leaders] know the obstacles, what needs to be changed. But they are obsessed with stability," said one European diplomat. "They feel that if they reform too quickly, they'll destabilise the country."

The communist party yesterday said the general secretary, Mr Do Muoi, 80, President Le Duc Anh, 76 and Mr Vo Van Kiet, the prime minister, 74 – the three most powerful men in Vietnam – had not put their names forward for re-election to the National Assembly, or parliament.

Possible successors to the presidency include Mr Nguyen Manh Cam, foreign minister, Nong Duc Manh, National Assembly chairman, and the defence minister, Mr Doan Khue. Phan Van Khai, a reformist deputy premier, is tipped as premier.

Mr Muoi may wait until a mid-term communist party congress early next year before stepping down. He is seen as a unifying figure in Vietnam's delicate balance between reformists, conservatives and the military. The other two in the troika are expected to leave the politburo with him.

Front runner to replace Mr Muoi is Gen Le Kha Phieu, a fast-rising conservative figure who reflects the growing power of the military.

Government decision-making has been all but paralysed since before a landmark communist party congress in July last year, when the troika decided to stay in office after failing to agree on successors. That saw economic reforms and decision-making in the bureaucracy slow down, stalling crucial large-scale infrastructure projects.

The old guard may now have found a formula that suits Vietnam's gradualist, Confucian approach to political change. But many economists say urgent action is needed to avert a fiscal crunch and that the leadership's apparent inability to anticipate problems is a considerable weakness.

ASIA-PACIFIC NEWS DIGEST

More time for Thai reforms

Thai financial authorities yesterday clayed a plan to issue five royal decrees aimed at impnving liquidity In the financial sector, helping ailing procrty developers and making permanent recent restricions on currency trading. Government officials said tha Mr Thanong Bidaya, the new finance minister, had sked for more time to review the measures, drawn u]by the central bank in collaboration with former fina.ce minister, Mr Amnuay Viravan, because he would ul mately be responsible for implementing them.

The decrees would spell out trading l nits on the baht, simplify rules for the mergers of financ companies, grant exceptions to foreign ownership limits, rovide guidelines for the securitisation of assets and estatish an organisation to buy mortgages from finacial inst lutions. Government officials said that in additic to Mr Thanong's request to review the measurs, there was disagreement within the six-party coalitin over details. They said they hoped the measures woul be ready for cabinet decision next week. *Ted Brdacke, Bangkok*

Indian politician charged

Mr Laloo Prasad Yadav, president of the .anata Dal party of India's prime minister, Mr I.K. Gujral, 'as yesterday charged on several counts of conspiracy i an animal fodder scandal. The indictment of India's iost charismatic politician is a severe embarrasment to the Janata Dal, which is the largest member ‹ the ruling United Front coalition. Several UF leadershave urged Mr Yadav to step down from his post as chiefainister of Bihar, but be has refused, saying he "woul rather hang than step down".

Mr Yadav commands huge support amor the rural lower caste poor in Bihar and beyond. Thahas given him immense power in Delhi, where the constitency of the rural poor is powerful. *Khozem Mercant, New Delhi*

Indonesian defeat accepted

Indonesia's minority Moslem-oriented Unite Development Party (PPP) has endorsed the weeping victory of the ruling Golkar party in last moth's general elections despite the PPP's accusations of wiespread polling irregularities. The final and official ection results announced yesterday showed Golkarecured 325 of the 425 elected seats in parliament in its lgest ever win. Mr Ismail Hasan Metareum, PPP chairon, said approving the results was "a very hard choic to make" but added that it was done with the "interestnd fate of the nation" in mind.

Meanwhile, the faction-riddled Indonesian I-mocratic Party, which lost support after the government-engineered removal of its leader, ls Megawati Sukarnoputri, last year, secured thextra seat needed to ensure that it met minimum represetation requirements in parliament. *Manuela Saraga, Jokarto*

Philippine investment higher

The level of new investment in the Philippines ached an estimated 271bn pesos ($10bn) in the first five nnths, 18 per cent higher than the official target, accordir to figures released by the Board of Investments (BI). The BOi, the principal government agency to grant :vestors incentives, said the better than expected figureshowed the government's policy of economic liberalisati and exports promotion "underscored the Philippines attraction to foreign capital".

Its investment target for the full year is 500bn esos to 550bn pesos. *Justin Maro-Manila*

'Mistakes' of Vietnam war

Hanoi and Washington could have ended the Vietnm war much sooner had they not both been "serious mistaken" about each other's motives and intentics, Mr Robert McNamara, former US defence secretary, sd yesterday. "These basic misperceptions, in my opion, prevented each side from moving to terminate the nflict at several different points between 1960 and 1968," said at the end of a four-day conference in Hanoi. "Had e in the US recognised that, we would have had a very different outcome."

Mr McNamara said that in his opinion the US hac misjudged the degree to which Hanoi had been willg to sacrifice human lives to achieve its goal of a unifiednd independent Vietnam. *Reuter, 'anoi*

Trend to coalition rule adds to importance of president's role

'Untouchable' goes to the top in India

By Khozem Merchant
in New Delhi

It has taken 50 years but India is finally poised to elect its first president from the "untouchables", the low-caste community embraced by Mahatma Gandhi.

Nominations closed for the country's highest office yesterday. Though the field includes the abrasive former chief election commissioner, Mr T.N. Seshan, it now appears a formality that Mr K.R. Narayanan, a *Dalit* (oppressed) born into the lowest of the so-called scheduled castes, will be elected by an electoral college of MPs next month.

Mr Narayanan, now vice president, is the consensus candidate of the ruling United Front, Congress party and the Hindu revivalist BJP. That will ensure his passage to the Rashtrapati Bhavan, the imperial palace vacated by the last British viceroy half a century ago, and since occupied by 10 Indian presidents.

"In this special year for India, there is huge symbolism in electing someone from the scheduled caste, who make up about 75 per cent of our population. It's like an Afro-American becoming president of the US," said Mr Ashish Nandy, a New Delhi political analyst.

The office of tha presidency has been brought into sharp focus over the past 14 months of political turmoil. During this time, Mr Shankar Dayal Sharma, who as president is empowered by the constitution to appoint and dismiss a government, has sworn in three new prime ministers. In India's new era of coalition politics, the president has emerged as a powerful king maker.

"The president has assumed a role far greater than ever," says Prof Zoya Hassan of Jawaharal Nehru University. "President Sharma has restored the respect of the office. He happens to be e constitutional expert who has acted with dignity and independence during a delicate period."

The most delicate point was perhaps last year when President Sharma, asked the BJP, the biggest single party in elections in April last year, to form its first government.

By doing so, he squared a difficult circle: he observed propriety by inviting the largest party to form e government; he watched it collapse, as be knew it would, after it failed to win the confidence of parliament; and he silenced critics who believed the Congress-appointed president would never countenance a governing party that was the antithesis of India's secular tradition.

The enhanced stature of the presidency follows the broader collapse of the centrifugal forces that have dominated politics since independence. At its core was tha now decaying Congress party and its controlling Nehru dynasty. What has emerged is a kaleidescope of parties representing sectional, caste, regional or single-issue interests.

The composition of the United Front government, which brings together communists, capitalists and secularists, illustrates the trend towards coalitions.

It all makes for a central government more vulnerable to short-term alliance-building of the kind that brought down the UF's Mr H.D. Deve Gowda as prime minister last year. The presidency has emerged along with the judiciary as one of the few institutions able to check the excess of the executive, legislature and bureaucracy.

"The presidency was once devalued... But the job has evolved. Today it is not just an exalted office standing over all else as it was after independence; it is now one of several institutions that are real checks on the system and that reflects our new political realities," says Mr Nandy.

India Survey, Separate Sections; Editoriel Comment, Page 19

HK property bubble gets ever bigger

Pearl Oriental, the Hong Kong property developer, recently turned down an offer of HK$900m (US$116m) for Genesis, a luxury house on the island's Victoria Peak. A price of HK$33,000 per square foot was not enough, Pearl'e chairman, Mr Wong Kwan, said.

Across the harbour in eastern Kowloon, Mr Cha, a bank executive, has his eye on something more modest. But the 500 aquare foot apartment will still cost HK$3.4m, almost 50 per cent more than it did two years ago. The 30 per cent deposit needed will take him more than five years of saving.

Even in land-scarce Hong Kong, long used to pricey property, these sums are raising anxieties. As the territory prepares for its return to China next week they are also raising e dilemma for the incoming edministration. "The housing crisis is at boiling point", says Ms Christine Loh, a legislator and founder of the Citizen's party. "Market mechanisms are not working."

Mr Tung Chee-hwa, Hong Kong'a post-colonial leader, has signalled that repairs will be a top priority when be takes office next week. "The government under my leadership will attach special concern to this," he said last weekend, amid expectations that measures will be unveiled as early as July 1.

These measures will require careful handling. Failure to address structural problems in the sector risks social strains, reduced competitiveness as a regional business centre and a potentially destabilising economic bubble. But auch is the importance of property to Hong Kong'e economy, that tough measures could also prove damaging.

Dr Lo Ka-shui, managing director of Great Eagle, the developer, and head of the Real Estate Developers' Association, estimates that the sector accounts for about 25 per cent of economic output. Ten of the territory's twelve 12 biggest companies receive a large chunk of their profits from real estate, while property groups account for more than 40 per cent of the stockmarket capitalisation.

Attention has focused on a rise in real-estate speculation. "Spaculation has returned with a vengeance," says Mr Michael Green, property analyst et Salomon Bros. A recent sale et the Villa Esplanada development drew 30,400 applicants for 160 units, with many seeking to re-sell apartments.

Speculation is a real concern. But the roots of the problem run much deeper. New housing stock of 19,875 apartments last year and a forecast 24,850 this year are the lowest levels in a decade, underlining the problem of inadequate supply, says Ms Loh. She claims this reflects inadequate competition between "a few dominant players who can disrupt the links between supply and demand".

More substantial factors, according to the industry, are the government's failure to release enough land for housing and the red-tape which strangles development applications. "It takes years to get approval for projects," says Dr Lo Ka-shui, managing director of Great Eagle, one of Hong Kong's big developers.

Mr Dominic Wong, the housing secretary, has already signalled an increase in land supply. Mr Green at Salomons believes Mr Leung Chun-ying, the head of Mr Tung's task-force, might also propose the acceleration of land reclamation projects and an increase in plot ratios – the size of buildings allowed on a given site.

Raising supply, bowever, takes time. "We will probably see an increase in the number of epartments coming on the market to 26,000 or 27,000 per year over the next few years," says Mr Faulkner. "But that won't be enough to make up the shortfall." He believes residential prices could continue to see strong increases after a predicted rise of 20-25 per cent this year.

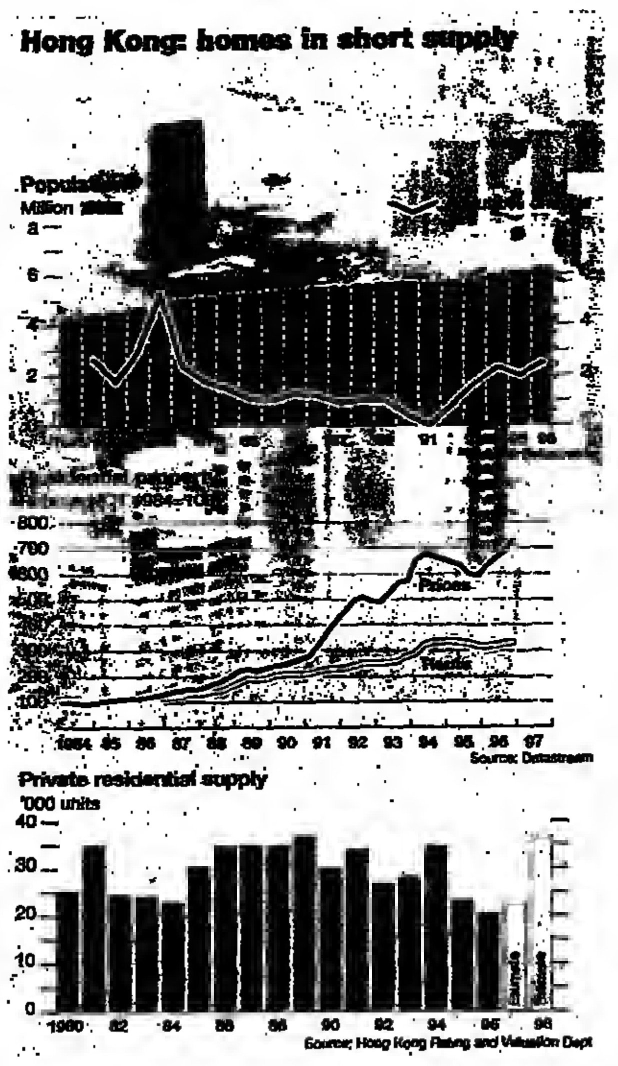
Faced with the delay in supply-side measures, Mr Leung has signalled a tough stance in curbing price rises. But effective options are limited. "If you increase limits on mortgage lending then you hit first time buyers," says Mr Faulkner. "Credit tightening is of little use, since many of the speculators have made enough money to pay cash."

Fiscal options – such as a capital gains tax – have come under fire from the property developers. Otber possibilities include administrative steps to prevent tha rapid re-sale of properties and, in the longer term, the use of land near the Chinese border or even in neighbouring Guangdong province.

In the short term, there are no easy solutions. But pressures are growing.

"It would be wise for the government to prevent a bubble from developing, the alternative may be a hurst bubble further down the track," says Mr Green at Salomons. Should that happen, he argues, it could take years of financial restructuring to rebuild confidence.

John Ridding



Jakarta likely to merge state banks

By Manuela Saragosa
in Jakarta

President Suharto'a epproval of a plan to merge several state banks is expected to guide Indonesia's overcrowded banking sector along an irreversible course of consolidation and pave the way for further privatisations.

Mr Mar'ie Muhammad, minister of finance, said Presidant Suharto had approved a plan of the finance ministry and central bank that might involve merging the seven state-owned banks into four but he did not give a timetable. "What we should work on now are only technical problems such as whether we will just merge those banks or have aome of them become subsidiaries of others," he said.

The move is expected to improve the level of transparency of state banks as loan portfolios come under increased scrutiny to facilitate planned privatisations.

State banks have been saddled with high levels of problem loans and their management has been characterised by relatively poor disclosure. Claasified credit et state banks amounted to 13.4 per cent of total outstanding loans at the end of last year compared with 4.3 per cent at private banks.

"We are happy to hear the government talk ebout mergers. It suggests a rethink of the role of the state banking system, which grew up when there was a minimal private banking sector," said Mr Dennis de Tray, director of the World Bank in Indonesia.

In the aftermath of financial deregulation in 1988, the number of Indonesian banks mushroomed. There are now 239 private banks, making effective supervision difficult for Bank Indonesia, the central bank. Attempts have been made over the past few years to encourage consolidation but few mergers have taken place.

However, private banks are expected to mirror consolidation in the state banking sector not only to secure economies of scale and market share but also to prepare for liberalisation of financial services early next century.

"Quite a lot of these banks have a relatively short life expectancy in terms of being independent. They are making themselves more transparent and preparing themselves to be bought out," said Mr William Keeling, a representative for Dresdner Kleinwort Benson in Jakarta.

The plan to merge state banks comes after Bank Negara Indoneaia raised almost Rp1,000bn ($410m) in a partial privatisation last year and amid expectations that Bank Rakyat Indonesia, another state-owned bank, will go public by 1999.

Under the proposed mergers, it is projected that Bank Negara Indonesia would join Bank Tabungan Negara, e state bank which is active in mortgage financing, while Bank Rakyat Indoneaia would remain intact.

INTERNATIONAL ECONOMIC INDICATORS: BALANCE OF PAYMENTS

Trade figures are given in billions of European currency units (Ecu). The Ecu exchange rate shows the number of national currency units per Ecu. The nominal fective exchange rate is an index with 1985=100.

UNITED STATES

	Exports	Visible trade balance	Current account balance	Ecu exch. rate	Effective exch. rate
1986	231.0	−140.2	−154.9	0.9836	81.4
1987	220.2	−131.8	−145.0	1.1541	71.9
1988	272.5	−100.2	−108.5	1.1833	67.0
1989	330.2	−99.3	−95.8	1.1017	70.0
1990	309.0	−79.3	−74.3	1.2745	66.7
1991	340.5	−53.5	−7.7	1.2391	65.7
1992	345.9	−65.2	−48.3	1.2957	64.4
1993	397.3	−98.7	−85.4	1.1705	66.3
1994	432.3	−127.0	−125.2	1.1857	65.1
1995	452.3	−122.8	−99.8	1.2928	61.2
1996	499.0	−135.9	−118.3	1.2526	64.4
2nd qtr.1996	126.4	−33.1	−28.8	1.2362	64.8
3rd qtr.1996	122.9	−37.2	−34.0	1.2613	64.4
4th qtr.1996	128.2	−34.8	−29.4	1.2557	65.0
1st qtr.1997	140.6	−38.8	−35.0	1.1713	68.3
May 1996	42.7	−11.9	n.a.	1.2282	64.6
June	42.2	−10.6	n.a.	1.2383	64.8
July	40.2	−12.7	n.a.	1.2563	64.6
August	41.5	−11.5	n.a.	1.2688	64.1
September	41.0	−13.0	n.a.	1.2587	64.7
October	42.7	−11.1	n.a.	1.2538	65.0
November	42.8	−10.7	n.a.	1.2706	64.4
December	43.0	−13.0	n.a.	1.2428	65.5
January 1997	43.2	−14.3	n.a.	1.2105	66.7
February	46.9	−13.5	n.a.	1.1587	68.8
March	50.9	−10.9	n.a.	1.1447	69.5
April	51.2	−11.7	n.a.	1.1401	70.4

JAPAN

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	208.9	94.2	87.2	165.11	127.7
1987	194.7	83.7	75.5	166.58	138.9
1988	216.7	79.2	87.0	151.51	153.7
1989	245.5	70.8	53.4	151.87	147.0
1990	220.0	50.0	28.5	183.94	132.5
1991	249.4	77.7	57.4	166.44	143.7
1992	256.6	96.2	86.7	164.05	150.7
1993	300.3	118.6	112.4	130.31	181.0
1994	325.0	121.7	110.5	120.99	194.9
1995	331.1	101.3	85.3	121.43	204.8
1996	319.8	66.6	52.6	136.24	177.7
2nd qtr.1996	61.7	16.3	12.9	132.90	180.8
3rd qtr.1996	78.7	15.7	13.2	137.43	176.9
4th qtr.1996	80.4	17.0	13.1	141.72	171.2
1st qtr.1997	83.3	14.9	13.2	141.82	164.3
May 1996	28.5	6.0	4.9	130.67	183.1
June	26.6	6.3	4.9	134.91	178.2
July	26.7	4.6	4.3	137.21	176.8
August	26.8	6.2	6.1	136.84	178.2
September	25.4	4.9	2.8	138.24	175.7
October	27.1	5.5	4.4	140.92	172.2
November	27.1	6.7	4.7	142.64	171.3
December	26.2	4.8	4.1	141.59	170.2
January 1997	28.4	5.9	5.6	142.63	166.5
February	27.8	4.1	4.1	142.52	162.3
March	27.3	4.8	3.4	140.32	163.7
April	33.8	7.1	7.1	143.23	160.2

GERMANY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	*248.5*	*53.5*	*41.2*	*2.1279*	'08.8
1987	*254.4*	*56.2*	*40.2*	*2.0710*	14.9
1988	*272.6*	*61.4*	*42.4*	*2.0739*	14.1
1989	310.1	65.1	51.5	2.0681	13.3
1990	324.8	51.9	38.3	2.0537	18.1
1991	327.8	11.1	−14.9	2.0480	17.1
1992	330.2	16.8	−15.0	2.0187	'0.6
1993	325.2	30.6	−12.1	1.9337	5.3
1994	360.3	37.5	−17.8	1.9198	5.8
1995	404.5	46.1	−18.3	1.8509	2.1
1996	416.4	52.3	−11.1	1.8844	8.6
2nd qtr.1996	101.6	11.2	−2.7	1.8821	1:2
3rd qtr.1996	104.8	14.5	−6.7	1.8884	1:7
4th qtr.1996	106.9	14.7	−1.0	1.9217	1:0
1st qtr.1997	109.4	14.7	−4.5	1.9415	1:8
May 1996	33.6	4.3	−1.8	1.8826	127
June	33.6	3.0	−0.4	1.8821	123
July	35.4	5.4	−3.2	1.8888	126
August	34.6	4.4	−3.2	1.8808	129
September	34.2	4.7	−0.3	1.8957	128
October	35.5	4.2	−1.2	1.8157	127
November	35.8	5.3	0.4	1.9207	127
December	35.6	4.2	−0.2	1.9286	126.
January 1997	34.5	2.2	−5.0	1.9414	125.
February	36.4	5.2	−0.7	1.9412	124.
March	38.5	6.7	1.2	1.9418	124.
April				1.9509	123.5

FRANCE

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exch. rate
1986	127.1	0.0	3.0	6.7946	102.7
1987	128.3	−4.6	−3.7	6.9265	102.7
1988	141.9	−4.7	−3.4	7.0354	100.6
1989	162.9	−6.9	−3.6	7.0169	99.6
1990	170.1	−7.2	−7.2	6.9202	103.8
1991	175.4	−4.2	−4.9	6.9648	102.1
1992	182.5	4.5	2.8	6.8420	105.4
1993	179.8	13.3	8.0	6.6281	109.1
1994	198.8	12.9	5.4	6.5659	110.1
1995	222.1	15.9	6.4	6.4460	113.4
1996	230.6	17.6	16.8	6.4068	113.3
2nd qtr.1996	56.2	3.8	2.8	6.3772	113.4
3rd qtr.1996	58.2	5.1	4.9	6.4242	113.2
4th qtr.1996	58.3	4.0	4.8	6.4976	112.5
1st qtr.1997	58.8	4.9	7.8	6.5517	110.9
May 1996	19.3	1.8	1.5	6.3707	113.3
June	18.5	1.5	0.1	6.4121	113.0
July	19.1	1.6	1.6	6.3965	113.7
August	19.6	2.1	0.8	6.4231	113.2
September	19.5	1.4	2.7	6.4532	112.8
October	19.7	1.8	2.3	6.4770	112.8
November	18.7	1.0	1.0	6.5001	112.6
December	19.9	1.3	1.5	6.5156	111.2
January 1997	19.2	1.2	3.2	6.5512	111.2
February	18.8	1.7	2.8	6.5539	110.6
March	18.9	1.5	1.4	6.5502	110.7
April				6.5715	110.3

ITALY

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	99.4	−2.5	−1.4	1461.6	101.4
1987	101.0	−7.7	−2.1	1494.3	101.1
1988	108.3	−8.2	−8.0	1536.8	97.7
1989	127.8	−11.3	−17.0	1509.2	98.6
1990	133.6	−9.3	−16.0	1523.2	100.1
1991	137.0	−10.5	−17.7	1531.3	98.7
1992	137.9	−8.0	−21.5	1591.5	95.8
1993	144.8	18.1	9.7	1838.7	80.5
1994	161.4	18.8	13.1	1906.6	77.0
1995	181.0	21.6	21.7	2106.4	69.4
1996	200.3	35.0	33.5	1932.1	75.8
2nd qtr.1996	51.6	8.8	6.9	1922.3	75.2
3rd qtr.1996	47.8	11.3	11.4	1918.4	76.7
4th qtr.1996	53.4	8.2	6.2	1911.2	77.6
1st qtr.1997	47.2	5.1	−7.1	1917.8	77.0
May 1996	18.1	3.9	3.3	1912.2	76.2
June	17.4	3.7	3.4	1909.9	76.8
July	18.7	6.3	6.8	1918.1	76.8
August	11.2	3.5	3.8	1923.8	76.4
September	16.0	1.4	0.8	1913.2	77.0
October	18.1	4.0	4.0	1911.4	77.5
November	17.1	3.0	3.0	1922.6	77.2
December	17.2	2.2	1.2	1899.5	76.1
January 1997	14.3	0.9	−3.8	1896.7	78.2
February	16.0	1.6	−1.3	1918.8	76.8
March	18.9	2.3	−1.9	1937.9	75.8
April			1.1	1931.6	76.3

UNITED KINGDOM

	Exports	Visible trade balance	Current account balance	Ecu exchange rate	Effective exchange rate
1986	108.3	−14.2	−1.3	0.6708	91.1
1987	112.3	−16.4	−6.6	0.7047	89.3
1988	120.9	−32.3	−24.8	0.6643	94.7
1989	137.0	−36.7	−33.3	0.6728	91.9
1990	142.3	−26.3	−26.2	0.7150	89.8
1991	147.7	−14.7	−11.4	0.7002	90.5
1992	145.9	−17.8	−13.8	0.7359	87.1
1993	158.0	−17.3	−13.8	0.7780	79.8
1994	174.1	−14.0	−3.1	0.7736	80.1
1995	186.9	−14.1	−4.6	0.8190	78.2
1996	208.9	−15.2	−0.0	0.8026	7.5
2nd qtr.1996	51.2	−3.7	0.9	0.8113	73.1
3rd qtr.1996	51.4	−3.6	−0.4	0.8113	78.8
4th qtr.1996	54.9	−3.4	1.1	0.7870	82.1
1st qtr.1997	58.4	−2.9		0.7186	87.0
May 1996	17.3	−1.1	n.a.	0.8106	76.0
June	17.1	−1.1	n.a.	0.8031	77.2
July	17.3	−1.4	n.a.	0.8085	77.0
August	16.9	−0.8	n.a.	0.8185	76.1
September	17.3	−1.4	n.a.	0.8070	77.4
October	18.2	−0.9	n.a.	0.7904	79.4
November	18.0	−1.3	n.a.	0.7642	82.6
December	18.7	−1.1	n.a.	0.7465	84.4
January 1997	19.8	−0.9	n.a.	0.7298	86.2
February	18.8	−1.1	n.a.	0.7132	87.5
March	19.1	−0.9	n.a.	0.7127	87.5
April			n.a.	0.6997	89.4

Due to the introduction of the Single Market, EC countries are currently changing to a new system of compiling trade statistics. All trade figures are seasonally adjusted, except for the Italian series and the German current account. Imports can be derived by subtracting the visible trade balance from exports. Export and import data are calculated on the FOB (free on board) basis, except for German and Italian imports which use the CIF method (including carriage, insurance and freight charges). German data up to and including 1990, shown in italics, refer to the former West Germany. The nominal effective exchange rates are period averages of Bank of England trade-weighted indices. Data supplied by Datastream and WEFA from national government and central bank sources.

Wall Street worries loopholes may spur Congress to demand tougher terms

Share prices fall on tobacco deal fears

By Richard Tomkins in New York

US tobacco stocks took a drubbing yesterday as investors worried that Congress would demand tougher terms for the industry's $368bn settlement with anti-tobacco lawyers.

But Wall Street's cool reaction for tha deal could also be good news for those who hammered it out because US legislators would have been much less likely to approve an agreement that sent tobacco stocks soaring.

In early trading yesterday, Philip Morris's shares were down $1, or 2 per cent, at $44⅝, and RJR Nabisco's were down $½, or 1.5 per cent, at $34. In London, shares in Britain's BAT Industries, parent of Brown & Williamson Tobacco, tumbled 21½p, or 3¾ per cent, to 567½p.

Legislators and public bealth advocates harbour deep suspicions that tha deal will benefit the tobacco industry instead of punishing it. Those fears were reinforced yesterday as it emerged that loopholes in the 68-page agreement would limit the damage to tobacco companies' profits.

One element of the deal requires the tobacco industry to pay out up to $2bn a year if it fails to cut teenage smoking by 30 per cent in fiva years and 60 per cent in 10 years – but these payments could be reduced by 75 per cent if the industry showed it had "pursued all reasonably available measures" to reach the goals.

The text also shows that, from the first year of the agreement, any percentage decreases in the number of adult smokers in the US will result in matching percentage decreases in the industry's annual payments into the settlement fund. These start at $8.5bn and rise to $15bn in the fifth year.

This means that those who stand to benefit from tbe industry payout, including states with claims against the industry and plaintiffs included in class action lawsuits, will only get the full amount if people continue to smoke et present levels.

Meanwhile, legislators and public health advocates are concerned about the conditions attached to the Food and Drug Administration's rigbt to reduce, and eventually eliminate, the addictive nicotine content of cigarettes.

The agreement says the FDA can only reduce nicotine levels if it can show that this will not create a "significant demand for contraband", a hurdle that may be difficult for tbe agency to overcome.

Senator Ron Wyden, Oregon Democrat, said yesterday: "We need to toughen this deal. There's going to be some major re-writing on this agreement."

Fresh setback for Clintons over Whitewater

By Patti Waldmeir in Washington

The Supreme Court yesterday dealt the White House another political eetback, ruling that government lawyers must hand over notes of conversations with the First Lady, Ms Hillary Clinton, about the Whitewater financial scandal.

The White House had tried to withhold the notes from a federal grand jury investigating the Whitewater affair, arguing that they were protected by attorney-client privilege. The Court rejected this argument, and let stand an appeals court ruling that the notes must be surrendered to the grand jury.

It was the second time in a month that the justices had handed down a ruling against the White House. Last month the Court ruled that President Bill Clinton could not claim immunity against prosecution in the Paula Jones sexual harassment case. Yesterday's ruling will again stir up public debate over whether the First Lady might face an indictment on Whitewater-related charges.

At issue in yesterday's decision were conversations between tbe First Lady and White House lawyers and her private attorneys about her role in Whitewater, the failed Arkansas real estate venture.

It was part of a flood of Supreme Court decisions due to be handed down before the court's term ends on Thursday. With as many as 10 potentially landmark decisions due this week, involving issues such as free speech on the internet, assisted suicide and gun control, legal experts say this term could prove one of the most significant in years.

At e time when paralysis reigns on Capitol Hill, with no major legislative initiatives in the offing, the Court is doing more to shape US society than any other federal institution.

Most big decisions were still outstanding yesterday. Perhaps the most significant is the so-called "cyberporn" case, which tests the constitutionality of the Communications Decency act, passed last year by Congress to regulate indecent words and pictures on the internet.

The court will also decide whether Americans have a constitutional right to assisted suicide. Two cases present the question of whether state laws prohibiting doctor-assisted suicide violate the constitution.

There are also important separation of powers and states' rights cases outstanding. Members of Congress are cballenging the so-called line item veto act, which allows the president to strike down parts of legislation without sacrificing all of it. This may violate the separation of powers between the legislative and executive branches.

It must decide also whether the federal government can force local law enforcement agencies to conduct background checks on prospective gun purchasers.

Media blitz on China MFN

By Nancy Dunne in Washington

The former US ambassador to Russia, Mr Robert Strauss, and a couple owning a small variety store have become the national spokesmen in a media blitz supporting US-China trade.

The message contained in campaign advertisements featuring Mr Strauss on TV and the couple on radio is that trade with China benefits US consumers. The aim is to convince members of the House, expected to vote today to uphold President Clinton's annual renewal of China's Most Favoured Nation trade status.

The campaign is just part of the unprecedented level of debate over tbe annual MFN renewal. In Washington dozens of semtnars, roundtables and press conferences have been devoted to the subject. Adding to that is the participation of the Family Research Council, a conservative Christian group, which bas produced gruesome circular letters to its members about China's abortion policies.

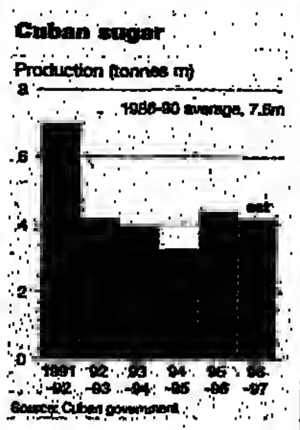
MFN supporters bave countered with a letter from the Reverend Billy Graham, pronouncing bimself "in favour of doing all we can to strengthen our relationship with China and its people".

The National Retail Federation, running the radio advertisements on news and talk shows around the country,
directly address bnman rights concerns, acknowledging: "Human rigbts issues are important, and China needs to treat its people better. But changing our normal trade status won't accomplish that."

Mr Strauss is featured in commercials paid for by Boeing. "There's been an attempt to frame the debate as a choice between American values and corporate profits," the company said. "This is not an either/or sitnation. The best way to bring about change is to engage in trade."

The advertising has helped drive the momentum towards MFN renewal, which both sides agree is not much in doubt. It also lays the groundwork for permanent MFN trade status, if China's accession to tbe World Trade Organisation can be achieved next year.

Castro: defiant on reforms



Cuba growth wobbles as sanctions bite

After a 7.8% boost in GDP in 1996 the economy is going through a far tougher patch

Impressive economic growth reported at nearly 8% in 1996 enabled Cube's leaders to shrug off tightened US economic sanctions with e defiant smile, but this year there is much less to be happy about.

Cuban ministers are much more reticent abont answering questions on the country's economy's performance. They admit it has been squeezed since the start of the year by higher oil and food import prices and delays and lower prices for crucial exports. They say short-term credit flows have also been put under pressure by the March 1996 Helms-Burton law, which tightened the 35-year-old US economic embargo against the island.

Instead of achieving a hoped-for increase, Cuba's strategic sugar harvest, whose exports account for a big slice of hard currency earnings and also act as guarantee for foreign credits, will fall short of last year's 4.4m tonnes. Delays have also been reported in nickel exports, another top hard currency earner.

One unofficial estimate provided by Cnban economists puts GDP growth in the first five months at 1.5 per cent.

"This has meant a much tenser start to the year than we would have liked," said Mr Alfonso Casanova, deputy economy minister.

When pressed Cuban officials reply with what appears to be a carefully prepared script. Their message is that, despite the difficult first half and disappointing sugar harvest, the government believes its original forecast for annual GDP growth of between 4 and 5 per cent can be achieved.

"We can make this. The economy should be more dynamic in the second half of the year," Mr Osvaldo Martinez, head of the economic affairs committee of Cuba's National Assembly, said.

Mr Martinez and other officials argue that extra growth to compensate for the sugar production shortfall will come from tourism, manufacturing, mining and services. Advances are also predicted in cigar and fisberies exports. The expanding tourist industry in particular is forecast to generate new growth in local machinery and textile production.

But some foreign business people and diplomats in Havana are sceptical about tbe Cuban economy's capacity to make up the lost ground. They point out that Cube's GDP traditionally receives its biggest boost in the first half, which concentrates most of the "high" tourist season, and the main food and export crops.

While they acknowledge that tourism and nickel mining are clearly expanding, they qnestion whether this will be enough to lift growth to the officially forecast levels, especially after a depressed sugar crop and a situation in which foreign credits are known to be both difficult and expensive for Cuba because of Helms-Burton.

Concerns in the foreign business community about this year's growth prospects are accompanied by a widespread perception that the pace of economic reform bas slowad, especially compared with 1994 and 1995, when the government appeared committed to a wide-ranging, market-orientated opening of the economy.

Altbough previously-announced reforms such as the creation of a new central bank and free trade zones have gone through this year, recent hardline, defensive etatemants by Cuban policymakers, including eome who bave been perceived as reformers, are raising fears that the island may be closing its doors to change.

Cuban ministers now repeat at every available opportunity that Cuba is not heading towards "capitalism" but merely "perfecting socialism" by eeeking greater economic efficiency.

"They seem to be putting their heads back in the sand," one European diplomat said.

Pascal Fletcher

Departing leader says he has reached understanding with Blair on 'decommissioning'

Irish PM claims progress in arms talks

By Bruce Clark in New York, Jimmy Burns in London and agencies

Mr John Bruton, the outgoing prime minister of the Republic of Ireland, indicated yesterday that he had reached an understanding with Mr Tony Blair, the UK prime minister, on how to deal with the issue of "decommissioning" weapons held by paramilitary groups in Northern Ireland.

RTE, the broadcasting network in the republic, reported that Mr Bruton had said his understanding with Mr Blair should permit "a rapid forward movement" towards inclusive talks on the future of Northern Ireland. Unscheduled talks between Mr Blair and Mr Bruton took place in New York, where the two leaders are attending the Earth Summit.

However, British officials said reports of a full agreement were exaggerated. "Nothing is finally tied down but they are making progress," said one British official who added: "There is a determination on all sides to move this forward." The British officials said Mr Blair would lay out his position in a speech tomorrow.

The issue of arms "decommissioning" has been one of the main obstacles to agreeing terms on which Sinn Féin could be admitted to all-party talks after a ceasefire. Sinn Féin is the political wing of the Irish Republican Army, which ended an 18-month ceasefire just over a year ago by detonating a bomb in the Docklands district of London.

Mr Bruton, who is due to leave office later this week, told RTE that Sinn Féin would now face a straight choice of pursuing or rejecting the path of violence.

Mr Martin McGuinness, one of Sinn Féin's chief strategists and its chief negotiator in talks with governments, repeated that his party was committed to peace and democratic dialogue in spite of last week's killings of two policemen in Northern Ireland by an IRA unit.

However republican sources and Irish government officials said last night that the Sinn Féin leadership remained unsure of how to respond to the Anglo-Irish initiative because of the IRA's refusal as an organisation to declare a ceasefire as a precondition to Sinn Féin entering political talks.

"Mr Gerry Adams [president of Sinn Féin] is trying to bring the whole [republican] organisation behind him," an Irish government official said last night. "The question he has no sure answer to at the moment is whether the organisation is deliverable."

According to republican sources, the murders of the policemen were carried out by hardline IRA elements deeply distrustful of the peace process. Their view contrasts with that of some senior Sinn Féin officials who privately believe that what the British and Irish governments have offered so far is a compromise that should be accepted.

Siemens delivers Heathrow trains

By Charles Batchelor, Transport Correspondent

Lydia van der Meer

The new trains will travel much faster than the existing Underground trains to Heathrow

The first of 14 trains which will provide a 15-minnte express service between Heathrow airport and central London was handed over to BAA, the airports operator, yesterday by Siemens, the manufacturer.

The air-conditioned trains, which will travel at up to 160kph, have been designed to provide a faster link than is currently possible with the Underground railway and are expected to take 3,000 cars a day off the roads to Heathrow. They have been designed with extra space for air travellers' luggage and will have special passenger information screens.

Two of the Heathrow Express trains have been delivered while the rest are either on test in Germany and the Czech republic or being built. The £50m ($82.5m) train order was one of the few to be placed while the UK national rail network was being privatised.

Services will start in about three months with trains running to a temporary station near Heathrow where passengers will transfer to a shuttle bus. This journey will take 30 minntes. When the tunnels are complete, in June 1998, the journey time will fall to 15 minutes.

● In an attempt to reassure its cabin crew staff who are being balloted to strike next month, British Airways said yesterday it had sent legally-binding personalised certificates to each of the 9,000 employees involved to re-endorse a guarantee that none of them will lose any money as a result of the company's plans for restructuring pay, Robert Taylor writes.

Mr Bob Ayling, BA's chief executive, said the move demonstrated there was no justification for industrial action. The result of the ballot, held by the British Airlines Stewards and Stewardeeses Association, is expected on Friday.

Soccer clubs are urged to launch own TV service

By Patrick Harverson in London

Soccer's Premier League has been advised to set up its own television service when its deal with BSkyB, the satellite broadcaster in which Mr Rupert Murdoch's group holds the biggest stake, expires in 2001.

In an interim report sent to clubs a fortnight ago, Oliver & Ohlbaum, the media consultancy hired earlier this year to advise on pay-per-view television, says the £670m ($1.1bn) which BSkyB is paying the clubs for live Premiership foothall over the next four years represents only half the real value of the rights to BSkyB.

The consultancy calculates top-flight football will be worth £1.3bn to the satellite broadcaster over the next four years, and says that if the league is to gain the full financial benefits of its popularity it should consider setting up a dedicated Premier League pay TV service.

This would involve the league subcontracting the production of programmes to a specialist television company and leasing satellite capacity to deliver live games to cable subscribers and dish owners. That way, the Premier League would receive all the revenues generated by coverage of its matches, as opposed to having to share the revenues with BSkyB.

The recommendations are likely to be received favourably by Premiership clubs, a growing number of which are reportedly unhappy about how much BSkyB is making from the league.

The clubs are paid a flat fee for live coverage of games, which means they have no way of benefiting financially from growth in BSkyB's subscriptions.

"The sport realises it is the main driver of television subscriptions, and rather than the tail wagging the dog it should be the other way round," said one Premier League chairman yesterday. He said setting up a television service could pave the way for the Premier League to list its shares on the stock market.

Forecasters warn of rough ride for economy

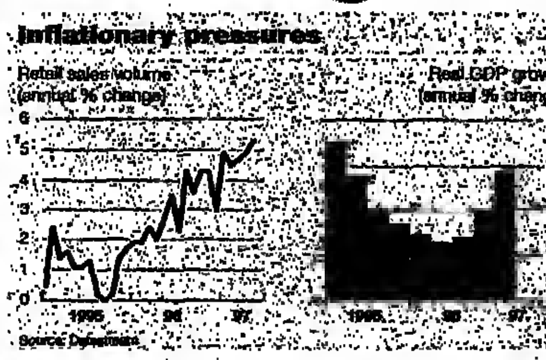
By Wolfgang Münchau in London

Interest rates should be increased by a further half point to 7 per cent to dampen consumer spending, the Society of Business Economists, a group of economic forecasters, warned yesterday. In its latest economic forecast, the group predicts a rough ride for the economy over the next 2½ years.

The forecast, drawn up three weeks ago, suggests that inflation will increase from 2.8 per cent in 1997 to 3.5 per cent in 1998 before falling back to 2.4 per cent in 1999. Growth in gross domestic product is set to fall to 2.0 per cent in 1999, after 3.2 per cent this year and 2.7 per ceot in 1998.

Mr David Kern, chairman of the SBE forecasting group, said it was assumed that interest rates would rise to 7 per cent by the end of the year, and remain at that level throughout 1998. But he added that the interest rate assumption may turn out to be too optimistic.

Today, Mr Kern, who is also chief economiet of National Westminster bank, will recommend that the monetary committee of the Bank of England, the UK central bank, raises interest rates by a half point from 6.5 per cent to 7 per cent at its next meeting.



He said the economy did not face a slump, but the current mini-boom would not last either. "This is not a repetition of 1988, but it will be pretty rough nevertheless. Even a 7 per cent interest rate will have a marked effect because the economy is more flexible."

According to the forecast, consumer expenditure will fall from a peak growth rate of 4.4 per cent this year, to 2.9 per cent in 1998 and 1.2 per cent in 1999. There will be a particularly marked decline in gross fixed investment, forecast to grow at a rate of 7.4 per cent this year, but falling to 5.1 per cent in 1998 and 3.5 per cent in 1999.

Manufacturing investment is forecast to show negative growth, of minus 1.1 per cent, to 1999. Average earnings growth is expected to remain broadly stable at 4.6 per cent this year, falling to 4.5 per cent in 1999.

The SBE said the economic surge was driven by consumer spending, the housing market and windfalls from building societies [mutually-owned savings and loans institutions] estimated at £30bn ($49.5bn).

"The subseqnent slowdown in 1998 and 1999, in response to tougher policies necessary to counter accelerating demand and higher inflation, will be quite sharp; but there will be no outright recession," the SBE said.

● Property shortages affecting many areas appear to be easing, the latest housing market eurvey from the Royal Institution of Chartered Surveyors indicated yesterday. It suggested that more homes might be put on the market once the uncertainty of the July 2 Budget was out of the way.

Acute property shortages have been driving up prices in many areas, resulting in queues of potential buyers. However, the number of properties for sale is now showing "a much-needed upward turn", said the institution.

UK NEWS DIGEST

Supreme Court backs Lloyd's

Lloyd's of London has finally won the backing of the US Supreme Court in a case which last year almost derailed its recovery plan. US Names still fighting Lloyd's yesterday lost their battle to appeal against a landmark ruling last August.

This had upheld clauses in contracts with Lloyd's, under which Names – individuals whose assets have traditionally supported the market – waive rights to sue the insurance market outside the UK. The Supreme Court's decision not to grant an appeal, contained in a brief statement of only two lines, may have implications in other outstanding cases against Lloyd's.

The society is appealing against a decision by a Californian court earlier this year in favour of Names. Lloyd's has said it would go to the Supreme Court to get this decision overturned. It completed the recovery plan to reinsure more than £11bn ($18.15bn) of old losses last September. *Christopher Adams, London*

■ INVESTMENT WATCHDOG

Service group fined $190,000

One of the country's leading financial services groups was hit by a record £115,000 ($190,000) fine from the Personal Investment Authority yesterday. It was the second six-figure fine that Godwins, of Farnborough, Hampshire, in south-west England, has received from regulators in the past year. Last October, it was fined £200,000 by the Investment Management Regulatory Organisation for pensions mis-selling. The authority said the fine – the biggest it has handed out – related to personal equity plan (PEP) administration and compliance failures. Godwins failed to "arrange proper protection for customers' assets by way of segregation and identification of those assets," the regulator said. *Christopher Brown-Humes, London*

■ MINISTER'S REPRIMAND

Pension companies 'arrogant'

Mrs Helen Liddell, the Treasury minister in charge of financial regulation, will today reprimand two pension companies over their "arrogant" attitude towards resolving the personal pensions mis-selling scandal. It is understood she will not call them to account for failure to make faster progress.

Last month, Mrs Liddell lambasted the 24 worst mis-selling offenders for slow progress over the review, and asked them to detail the resources being allocated. She is expected to make the replies public by placing them in the House of Commons library. One source said: "Both these companies have shown arrogance in the tone of their replies. They have underestimated the strength of feeling on the matter." More than 500,000 people may have been mis-sold a pension, but so far only 12,650 have been compensated. *Christopher Brown-Humes, London*

■ ENERGY TECHNOLOGY

Industry backs emissions move

Industry yesterday welcomed the government's move to encourage the use of combined heat and power (CHP) technology, saying it provided financial, and environmental benefits to companies.

CHP will play an important part in the government's programme to meet tough emission controls. Yesterday in New York, Mr Tony Blair, prime minister, said the UK would seek to reduce carbon dioxide (CO_2) emissions by 20 per cent compared to their 1990 level by 2010.

Mr John Prescott, deputy prime minister, has written to 320 companies in the chemicals, engineering, and food and drink sectors of the economy inviting them to review the potential for CHP in their sector.

This week, Heinz, the consumer foods group, said it had awarded a £29m ($47.8m) contract to BP Energy to design, build and operate a CHP plant at its factory in north London. *Simon Holberton, London*

■ CARTEL ALLEGATIONS

Suppliers accused of collusion

Five suppliers of protective polyester film for glazing have been accused of colluding on tenders by the Office of Fair Trading. The companies – Banafix, Bonwyke, Durable Berkeley, Kent and Parasol Energy and Pabro Property Services – have been referred to the Restrictive Practices Court.

The agreement came to light as a result of investigations following a complaint to the OFT's cartels taskforce on its hotline. *David Wighton, London*

NEWS: UK

Taxpayers may have to settle companies' and banks' costs as government dumps initiative projects

Contractors urge private finance compensation

By Nicholas Timmins
in London

Big contractors and banks are to seek reimbursement from the taxpayer for millions of pounds they hava spent on tendering for private finance initiative deals as the government cuts the number of projects in order to get the PFI moving.

Mr Malcom Bates, the chairman of Pearl Assurance, hrought in by the government to sort out the initiative, recommended yesterday that when the government decides not to proceed on grounds other than the viability of the tenders submitted, "contractors' costs should be refunded".

Mr Geoffrey Robinson, the paymaster general, said yesterday that he favoured that. He added, however, that "it must be for the sole reason that the government has pulled the plug" and that in avery other respect the project looked viahle. The PFI, inherited from the previons government, is intended to attract private funding to public projects.

The Confederation of British Industry, the biggest UK employers' lobby, calculates that the private sector has spent more than £60m ($100m) in hidding for hig hospital projects in the state health service alone. The government's Departmeot of Health, however, is shortly to announce a cut from 43 to perhaps six in the number going ahead. In Scotland yesterday, ministers cancelled a £110m project at Edinburgh's Western General Hospital, while approving further work on six others.

Ms Jenny Price, director of the Major Contractors' Group which represents the 23 biggest UK huilders, said it believed there was "an overwhelming case" for compensation where contractors had hid for a scheme which was clearly needed hut where government decided against proceeding. "We will be going to the Department of Health with some projects where we believe there should be reimbursement," she said.

The possihility of reimbursement came as Mr Robinson announced that a new Treasury taskforce with a projects chief executive, recruited from the private sector, is to drive the initiative throughout, replacing the eight-strong private finance panel and 20-strong executive.

In future, the commercial viability of projects will be signed off by the Treasury before they are formally edvertised – allowing departments to "road-test" projects before they go for procurement.

Departmental units are to be strengthened by hringing in deal-making, and project management expertise and documentation will be standardised to cut costs.

The detailed package received a hroad welcome from banks, builders and the CBI which said: "It is what we wanted to hear".

PFI should also be used to tackle backlog maintenance in hospitals and schools, the report says, with local authorities packaging together aeparate pieces of repair work.

Mr John Prescott, the deputy prime minister, has ordered officials to examine ways of freeing the London Underground railway from public spending constraints without privatising it, George Parker and Liam Halligan write. He is understood to favour the idea of turning the railway into a publicly-owned trust which could borrow casb on the capital markets without an increase in public spending totals.

The move appeals to Mr Prescott because it stops short of the "wholesale privatisation" of the crumbling network ruled out in Labour's election manifesto. Mr Prescott was annoyed and embarrassed by the disclosure last week that he is considering the effective privatisation of the railway by selling a majority shareholding in the business to the private sector.

Financial advisers are expected to be appointed within the next few weeks to propose the best options.

Windfall tax 'may fall foul of energy treaties'

By David Wighton,
Political Correspondent

The government's windfall tax on the profits of privatised utilities could face a serious legal challenge under international treaties according to a leading expert on international energy law.

An international tribunal could conclude that the levy amounted to "creeping expropriation", claims Professor Thomas Walde, professor of European economic and energy law at Dundee University in Scotland and a former adviser on energy law to the United Nations.

The government's proposals could also fall foul of the 1994 Energy Charter Treaty which outlaws "confiscatory taxation".

In on unpublished paper, Prof Walde plays down the chances of a legal challenge succeeding under European Union rules or the European Convention on Human Rights. These have been the areas on which most legal experts have focused, with most agreeing that while challenges would be possible they would he highly unlikely to succeed.

But Prof Walde helleves the "most potent" challenge could be based on customary and treaty-based international law. "It is here that one cannot exclode that a challenge of the UK windfall tax may have some chance of success."

Customary international law protects investors against confiscation without full compensation, and recent international trihnnals have concluded that taxation can be so heavy as to be tantamount to expropriation, says Prof Walde.

"Foreign investors could, under the sponsorship of their bome governments, claim compensation equal to the value of the tax," says Prof Walde. They could also appeal to the principle of "proportionality" hy arguing that the UK government should change the companies' regulatory regimes rather than impose a tax.

Prof Walde believes investors could also seek protection under the Energy Charter Treaty, signed by the UK and 48 other countries in 1994, which has so far been ignored by other commentators. Because it has not been signed by the US, the treaty could only be used by EU investors in UK electricity and gas companies. But Prof Walde says the treaty provides "far-reaching" protection for foreign investment in the energy sector.

The UK Treasury yesterday declined to say whether its legal advice had included consideration of the Energy Charter Treaty.

Up to 1m may staff call centre 'factories'

By Robert Taylor,
Employment Editor

Up to 1m peopla will be working in call centres outsida London and south-eastEngland hy the end of the century, in what a report published today describes as the "industrialisation of white-collar work".

The call centres will mainly provide financial sales, ticketing or computer advice hy telephone, according to the report on 33 centres hy Incomes Data Services, the independent employment research body. It estimates that call centres already employ 250,000 workers, about 1.2 per cent of the UK labour force.

The report saya work methods are based on the scientific management theories of Frederick Winslow Taylor and the mass volume production methods of Henry Ford.

"The seven-day continuous nature of the operations is more akin to manufacturing than a more traditional day-work arrangement for white-collar staff," says the study. "Productivity targets or piecework quotas are also borrowed from a more manufacturing background."

The majority of the call centres are in Northern Ireland, Scotland, the north-east of England and Merseyside, in north-west England. This is due to two factors, the report says: the determination of companies to escape from the high wage pressures in the south-east, and the provision of regional development grants which has made opening centres in some of the more depressed regions more attractive.

The work carried out in the centres is highly diverse, covering sales and marketing, customer services, technical assistance and emergency response.

Conservatives face years in wilderness

The main opposition party has little hope of damaging the government, says John Kampfner

New leader or not, the Conservatives face a desperately difficult task of undermining the Labour government's hegemony. Facing a Labour majority of 179 in the House of Commons, Mr William Hague has to develop a form of oppositional politics that helps him restore the Conservatives to electoral respectahility.

Mr Hague will have to do that in the assumption that, over the course of the next five years, he is unlikely to win a single vote in the Commons. Senior Conservatives are resigned to the honeymoon period for Mr Tony Blair, the prime minister, lasting up to and including the annual Labour party conference in October.

There have already been alips by the government, for example over its relations with the governor of the Bank of England and with executives of Camelot, the consortium which runs the National Lottery. Yet these were all self-inflicted, with no belp from the Conservatives.

Unlike Labour in opposition, the Conservatives will not be able to count on support from the pro-European Liheral Democrat party. Their only chance of damaging the government's legislative timetable will come in the House of Lords, the unelected upper House where they enjoy a huge in-huilt majority. However, they will be reluctant to use it. They know that snch defiance would strengthen the government's resolve to abolisb voting rights for hereditary lords, as the first step towards making the second chamher more representative of parties' support with the electorate.

The Conservatives are unlikely to fare mnch better in committees of the House of Commons. The government is expected to announce their composition this week. These are likely to give the Conservatives only four out of 15 seats on the larger, all-party hodies, with nine for Labour and two for the Liberal Democrats.

Yet even if they fail to win a parliamentary hattle, over time they could begin to win arguments. For that to happen, however, they will require not just serious Lahour blunders but the ahility to practise forensic and teoacious oppositional politics. The Treasury committee and the public accounts committee – the parliamentary arm of tbe National Audit Office – will provide such an opportunity.

Perhaps the higgest chink in the Labour armoury will be puhlic spending. Labour has already sought to hlur the edges around its pledge not to increase speodiog totals for any department. There will be scope for the Conservatives when the first crises occur in schools and hospitals over the winter.

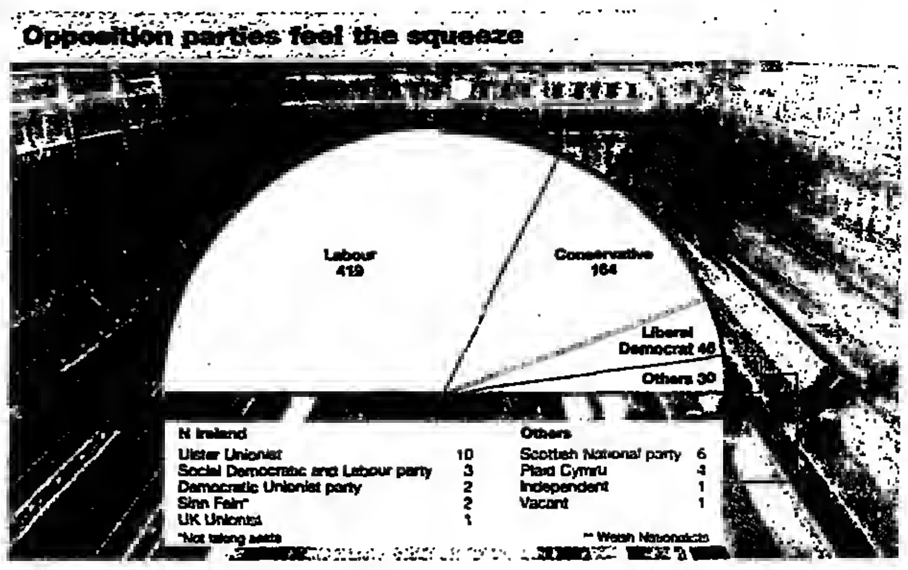
Yet one excuse will be ready made for Mr Blair – that the problems he faces stem from the previous administration. It is a line he is likely to pursue for some time to come, one the Conservatives were using 18 years after the last Labour government.

"The first thing I'm going to do is to memorise Lahour's election manifesto," said a member of the new shadow cabinet. "Just wait until the hospital waiting lists go up. That's when we can get at them."

The bravado presupposes that the Tories will claw their way back between now and the next election. The question for them is how far they can erode the Labour majority in 2002. Yet that obscures a potentially more depressing scenario. Statistics suggest that unless Mr Hague and his team transform the Conservative image, they could fare eveo worse next time aroond.

Of the 165 Conservative MPs returned on May 1, some can thank fear of an untried Labour government for their wafer-thin majorities. The Tories already face one hy-election, in west London where the MP died before taking his seat. There is little appetite among the Conservatives for that contest.

Opposition parties feel the squeeze



William Hague's top team

		Role in John Major's government
IN		
Shadow chancellor of the exchequer	Peter Lilley	Social security secretary
Shadow foreign secretary	Michael Howard	Home secretary
Shadow home secretary	Brian Mawhinney	Party chairman
Shadow defence secretary	Sir George Young	Transport secretary
Shadow trade and industry secretary	John Redwood	Quit cabinet in 1995 to challenge Major for party leadership
Shadow agriculture minister	David Curry	Housing minister
Shadow environment and secretary	Sir Norman Fowler	
Shadow N Ireland secretary	Andrew Mackay	Deputy chief whip
OUT	John Major	Prime minister
	Michael Heseltine	Deputy prime minister
	Kenneth Clarke	Chancellor of the exchequer
	Douglas Hogg	Agriculture minister

Leader plans tough anti-sleaze regime for MPs

By Liam Halligan
in London

Conservative MPs found guilty of financial impropriety will be sacked and donations to party funds from overseas and anonymous donations will be hanned under plans being considered hy Mr William Hague, the new leader of the opposition Conservative party.

Mr Hague wants to discipline MPs engaging in "sleaze" and to clean up party funding as part of a broader review of party rules. Completing appointments to a predominantly rightwing shadow cahinet over the weekend, Mr Hague surprised MPs hy giving senior posts to two former ministers who had been widely expected to spend this parliament on the back henches of the House of Commons.

Mr Brian Mawhinney was appointed shadow home secretary and Sir Norman Fowler hecame shadow environment and transport secretary. Both men are former chairmen of the party. Mr David Heathcoat Amory, who resigned from Mr John Major's government over the single European currency, has been appointed shadow chief secretary to the Treasury.

Mr Peter Lilley, shadow chancellor, has emerged as Mr Hague's effective deputy leader, being granted a broad remit to re-think party policy. No shadow secretaries have been appointed for Scotland and Wales, but Mr Michael Ancram will shadow Labour on devolution.

Referring to Mr Hague's review of internal party powers and anthority, Lord Parkinson, party chairman, said the aim was to provide "a unifying force".

"There's no point in pretending that parliament is full of people who are angelic," he said on BBC television. "If people kick over the traces or cross the line, then they have to accept the consequences – whether Conservative, Labour or Liberal Democrat."

● Mr Hague shonld adopt US Republican ideas for a flat rate of income tax as a way to restore the Conservative party's fortunes, says a paper published by the Social Market Foundation, a think-tank, Nicholas Timmins writes.

Bnt Conservatives should he careful about what else they copy from the Republicans' Contract with America, say the authors, Mr Tim Hames, a leader writer on The Times newspaper in London, and Mr Alan Grant, a politics lecturer at Oxford Brookes University. They say differences betweeo Britain and the US mean Republican ideas for welfare reform should he treated with caution.

Precision agriculture may help increase the world's food production capacity, writes **Sara Abdulla**

Smart work on the farm

Weeding between the lines: old-style precision agriculture is hard work

As the human race nears the limits of global food production capacity using present technologies, scientists and population experts are increasingly pinning their hopes on precision agriculture or "smart farming".

A technology which was first adopted by sugar beet and potato farmers in the mid-1980s is fast emerging as a weapon in the battle to raise agricultural yields. In the 1980s academics and farmers wrote their own computer software. Now, with satellita networks and small, powerful computers becoming commonplace, a handful of US companies are producing smart farming software for every aventuality.

The big names include Farmer Softwara, Microtrack and AgLeader with yield-mapping programs, and AgChem (formerly SoilTech) with a fertiliser spreading package.

Interest in smart farming is growing because of the world food situation. In the 1960s most nations were self-sufficient in food, but 30 years on the situation could not be more different.

According to Rudy Rabbinge, member of the Scientific Council for Government Policy in the Netherlands, already a fifth of the planet's 5.5bn people are starving and the population is set to double by 2050. For farmers to provide every one of the 10bn people who will be alive 50 years from now with sufficient calories to survive, they will have to produce as much food in the coming 50 years as humankind has produced since agriculture hegan, says Rabbinge.

Unfortunately, nearly all the world's productive land – flat and with water – is already exploited, and much of it is already quite degraded. Arable land could he expanded by roughly a third at the expense of forest and rangeland. But much of this is essential in its present uses for environmental reasons, and productivity in these areas would be much below levels in land currently being cropped.

International delegates at a recent precision agriculture symposium in Wageningen, the Netherlands, jointly organised by the European Environmental Research Organisation and The Ciba Foundation agreed that the only sustainable, economically feasible, environmentally friendly and socially acceptable way for farmers to avert the imminent food shortages will be to increase their yields drastically per hectare using precision agriculture.

So far in this century mechanisation, synthetic fertilisers, herbicides, pesticides and genetic engineering have increased yields by more than 20-fold in the developed world. But they have also led to a relentless expansion of farm size. Until very recently, this meant that the agri-businessman prepared, planted, nurtured and harvested a crop on a whole-field (or more) basis, ignoring the sometimes enormous variations in soil type, weed density and other factors.

Precision farmed fields are subdivided into small, relatively homogenous management zones so that fertiliser, herbicide, seed density, irrigation, drainage and tillage can be custom-managed. "In the past we looked upon heterogeneity as a liability," says Rabbinge. "Now we are realising that it can be an asset."

Just as the gardener knows which part of the garden needs more watering and a bigger handful of compost, so the precision farmer tailors his actions as closely to the variations in his land as weather forecasts, mapping data, time and money allow.

Satellites such as Landsat, JERS and Spot and small computers are fundamental to precision agriculture. Maps of soil type and weed density generated from soil sampling, yield monitoring, remote satellite sensing or aircraft video imaging are stored by a computer in the cab of the farmer's tractor, spreader or seeder.

Satellite signals to a Global Positioning System (GPS) package in the computer update it on the vehicle's position in the field. Thus, with the aid of treatment maps also held by the computer, the farming machinery can vary its action – seeding, spraying, or ploughing – according to tha characteristics of its location.

Supporters of precision farming say that by minimising waste and maximising efficacy, the techniqua pays off financially and environmentally. Encouraged by training initiatives set up by Pierre Robert, the "grandfather" of precision agriculture from the University of Minnesota, 80 per cent of farmers in Minnesota now use precision farming techniques because it increases their profits by up to $50 per hectare. In addition, accurate spatial and temporal targeting of herbicides, pesticides and fertilisers can reduce the overall volume needed by up to 90 per cent.

Although start-up costs are still high, precision agriculture is already used on between 2m ha and 3m ha of US farmland.

"It doesn't take any salesmanship to convince a farmer that uniform management is inefficient, he knows that," points out David Mulla, holder of the WE Larson Chair of Soil and Water Resources at the University of Minnesota. "But obviously more people would adopt precision agriculture if the equipment were cheaper, easier and more accessible."

However, many less affluent farmers are so excited about precision agriculture that they are forming co-operatives to spread the initial investment costs.

And, Mulla adds, it makes sense: the profit from slightly increasing, for example, tuber size in only 10 per cent of an average potato field would pay for the introduction of precision agriculture technology.

Sara Abdulla is science writer in residence at the Ciba Foundation.

Uniform spraying weeded out

A UK company will this week launch the first commercial version of a revolutionary spraying system that could cut the amount of herbicide needed to control grass weeds in cereal crops by up to 70 per cent, *writes Sara Abdulla*.

Micron Sprayers, the UK-based pesticide-application specialists, will be unveiling the British-designed Patch Sprayer at an agricultural equipment show. The machine should be available in the next 12 to 18 months.

The system was developed by researchers at Silsoe Research Institute. John Stafford, research leader at the institute, says the deal with Micron will make available to the working farmer a machine that until recently seemed destined to remain purely a research tool.

Encouraged by the advent of genetically-engineered, herbicide-resistant crops, conventional sprayers are designed to cover a field uniformly, at great financial and environmental expense.

But weed and disease distribution are far from uniform. To accommodate variations, the Patch Sprayer has a 12m spraying boom divided into 2m sections, each with a separately controllable sprayline that can deliver four different levels of herbicide.

As the sprayer moves across a field it receives real-time satellite updates on its position. The boom is controlled automatically by a pre-planned weed treatment map, which is carried by the computer in the sprayer cab.

Stafford is adamant that sprayer will find a market, despite its complexity. "Farmers are extremely enthusiastic about the patch sprayer because they can see the need for it with one glance at a field," he says.

Unlike ordinary sprayers, which transport ready-mixed herbicide, the patch sprayer tank contains only pure water. Because herbicide is mixed on the move, in response to demand from the boom, only a fraction of the plumbing contains dilute herbicide, minimising waste and pollution when the system is flushed out at the end of a job.

An even more accurate experimental sprayer developed at Silsoe, which uses infra-red video imagery to distinguish plants from weeds, was reported on this page on June 7, 1996.

Dish for fish fights disease

A dose of feed helps the medicine go down, finds **Maggie Urry**

Imagine trying to vaccinate a fish hy hand. Apart from the difficulties of injecting something as slippery as a young salmon, it is a task which must often be done in uncomfortable conditions.

"It's a cold and miserahle job," says Patrick Smith, managing director of Aquaculture Vaccines, one of the leading makers of vaccines for fish. Nevertheless, 75m fish were vaccinated this way in Norway alone last year.

All that could change, if Aquaculture Vaccines gains product licences for oral vaccines, which can be mixed in with fish feed.

Fish farming is a fast-growing husiness, and has been dubbed the "blne revolution". Farmed fish account for around 20 per cent of the total world consumption of fish and shellfish, and the proportion is rising rapidly.

Pressure on wild fishing because of qnotas and declining stocks is making farming a cheaper method of production. But aquaculture has a serious drawback – disease.

Although fish diseases cannot be transmitted to humans, the problem can devastate production as an illness qnickly hecomes an epidemic among fish crowded together. As much as 40 per cent of fish heing farmed are lost to disease, resulting in serious losses among fish farmers.

Treating fish with antibiotics creates other problems, from residnes in the fish to unwelcome environmental effects.

Vaccinating fish against disease is the obvious answer. But injecting them individually is expensive, stressful for the fish – even thongh they are anaesthetised – and some fish are too small to handle. The alternative of immersion also has drawbacks.

"The Holy Grail of fish vaccines is oral vaccines," says Smith. Scientists have been searching for that prize for decades, but faced an apparently insurmountable prohlem.

Smith explains that the antigens (proteins) in the vaccines which induce the immune response, are made ineffective by the acidity in the fish's stomach.

The trick is to get the vaccine safely past the stomach to the lower gut – where the main immune areas are. The method must be cheap enough not to throw out the economics of the fish farm.

Smith believes that Aquaculture Vaccines has cracked the problem, by putting a protective coating round antigens. He likens it to the chocolates which melt in your mouth, not in your hands because of the hard sugar outside.

The coating must be palatable to the fish so that they eat the food into which the vaccine has been mixed. Also, the dosage must be closely calculated so that a fish which eats only a small amount is protected, while a greedier rival does not suffer an overdose.

Aquacultnre Vaccines has had its oral vaccines in field trials for three years and has obtained licences in Greece and Italy. Smith hopes it will pass the UK procedures hy the end of this year.

The company has raised £1m of new fnnding from 3i, the ventnre capital group, to develop and market the vaccines.

هكذا من الاصل

Toshiba: Exciting Times Ahead as Corporate Commitment to Europe Pays Off in New Products

After his first year at the reins of Toshiba, Taizo Nishimuro reviews the results of the Commitment the electronics giant has made to Europe and reflects on the conditions for success in the future.

by Roger Williams

Mr.Taizo Nishimuro, *President and Chief Executive Officer, Toshiba Corporation*

Williams: *There is great interest in Europe on the impact of EMU and what can be expected of the unified EU market. How do you see this? Are you, and Toshiba, optimistic?*

Nishimuro: Yes, I think so. There are uncertainties, but the general impression in Japan is that unification will have a positive influence on European growth and development. Over the last thirty years, Toshiba has established and promoted European operations in all our core businesses, and we will continue to develop them and to grow with the market. We now have 26 subsidiaries and affiliates, including six manufacturing operations, with over 4,200 employees. Many of these companies are led by excellent, locally-hired executives. We also have distributors and dealer networks throughout Europe.

An Ongoing 30-Year Commitment to European Operations

Williams: *So Europe is important to your international business strategy?*

Nishimuro: It's one of our three major overseas markets, with the U.S. and Asia, and currently accounts for 22% of overseas sales. While Europe doesn't see the breakneck growth rates of Asia, it does offer steady business and growth. And as the Eastern European countries adapt to the market in coming years, we can expect to see more business opportunities there. On top of that, Europe remains a wellspring of innovation. For instance, there is a strong commitment to developing digital broadcasting, and Europe is very advanced in telecommunications, a key area in coming years. We have close relations with a number of Europe's leading companies, including the EMI Group and Siemens.

Williams: *Does Toshiba enjoy any advantages in its European business?*

Nishimuro: Quite a few, and they all grow from the long-term commitment we've made to operations there, including manufacturing. Let me give you just a few recent milestones. Last year, Toshiba Consumer Products in the UK marked 15 years of manufacturing TVs and production of its 100,000th commercial-use air-conditioner. In our computer

TV production line at Toshiba Consumer Products in the UK boasts high productivity and high local content.

business, we celebrated production of the 1,000,000th PC at our computer plant in Germany. In France, Toshiba Systèmes (France), which manufactures copiers, is expanding its toner production facilities.

Our Facilities in Europe are Star Performers

The fact that we are long established in Europe has allowed us to build up our manufacturing base and capabilities. I'm pleased to say that our facilities in Europe are star performers. They show an excellent commitment to productivity and to small group quality activities, and all of them meet the highest environmental standards, such as ISO 14001 and EMAS, the European Community's eco-management and audit scheme. These facilities are also innovators. Our PC plant in Regensburg, Germany, has replaced traditional production lines with U-shaped lines, where a single worker or small teams handle all aspects of assembly. This has greatly enhanced productivity and the flexibility needed for producing a wide range of models with local requirements.

Williams: *What are your most successful products in Europe?*

Nishimuro: Portable computers are undoubtedly the first that spring to mind. We are the clear number one in portable PCs worldwide, and in Europe we took close to 25% of the market in 1996. And all the portable PCs we sell in Europe are manufactured there, and have been since 1990, a claim no other vendor can make, I think.

But our success is not confined to computers. We are a top manufacturer in medical

PowerVision full digital high-end diagnostic ultrasound system—reinforcing Toshiba's leading position in medical imaging.

imaging systems, dominant in the worldwide and European markets for diagnostic ultrasound equipment. Our technological superiority in imaging and a wide product line-up help us keep this position. Sales of our business copiers enjoy a higher growth rate than the industry average in Europe, positioning us among the market leaders. We are also doing very well with large-screen TVs and VCRs in the UK, where we are vying for the top position.

Another encouraging market is that for commercial-use air-conditioners, which we have been making ar Plymouth for five years or so. They are increasingly found in restaurants and shops, and I expect to see growth there. We are also a leading supplier of a wide variety of cutting-edge semiconductors.

Strengths in Portable Computers, Medical Imaging Systems, Air-Conditioners, Copiers, TVs, VCRs...

Williams: *What is the outlook for semiconductors in Europe?*

Nishimuro: Last year was a difficult one. Prices slumped, and most semiconductor manufacturers took a pounding. The market will recover this year, and I want us to respond by building on our strengths in all aspects of the business: in our semiconductor assembly and finishing at Braunschweig in Germany, and in our support for customers. We are very well positioned for the move towards building entire systems on a single chip, one of the most important trends in the semiconductor market. In this connection, we opened the European LSI Design & Engineering Centre in Düsseldorf in October last year.

Williams: *Europe is clearly important to Toshiba. But what can Toshiba contribute to Europe?*

Nishimuro: Well, the first thing is that, as far as possible, we want to manufacture products for Europe within Europe, contributing to local employment and the economy. Then again, we are not only transferring some of our most advanced technology to Europe, we also promote R&D there. The Toshiba Cambridge Research Centre is studying application of quantum physics to future semiconductors.

Another important contribution is the fact that we have made Europeans largely responsible for running our operations there. Indeed, the proportion of our companies headed by local citizens is higher in Europe than in any other part of the world. We know that Europe is many different markets, and so in almost every national market we have given top responsibility to local managers, on the principle that they will know their markets better than any Japanese could be expected to.

Williams: *How would you express Toshiba's approach to business?*

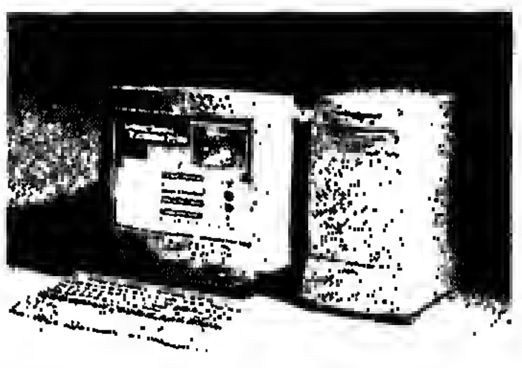
Nishimuro: Our main growth areas, where we are concentrating resources, are electronic components, computers, telecommunications, digital systems and multimedia. These are all fast-changing businesses, driven by cutting-edge technologies. To survive in these markets, we must be an agile company. This is my constant refrain.

The priority is on agility, the ability to anticipate and facilitate change

When I say agile, I don't only mean quick or responsive. I mean developing as clear a vision as possible of the future, working to achieve it, and also constantly revising it to take account of business developments. No-one can read the future, but if we study the market, listen to customers and build up our knowledge base, really get inside industry trends, we can position Toshiba for market leadership. If we are agile enough, we will be able to anticipate change, and incorporate it in our technologies and products. It is not eoough just to respond to changes after they have taken place. That is not the way to success.

Williams: *If you apply this approach to Europe, what products can we expect to see?*

Nishimuro: I think we are in for an exciting few years. In computers, we are poised to introduce desktop PCs to Europe, our biggest move since we introduced the first laptop back in 1985. We want to see Toshiba positioned as the world's third largest computer company by the year 2000, offering products ranging from mininotebook PCs to PC servers. Towards this end, we have developed two series of desktops: Infinia for the home market and Equium for business users.



With the Equium desktop range Toshiba is building on its leadership in portable PCs.

We have launched Equium in the UK, France and Germany, and Infinia in France, where the retail market is stronger. We have also launched the Libretto mininotebook PC, already a huge hit in Japan. Libretto is the world's smallest full-spec portable computer for Windows 95. Its low, 850-gram weight makes for excellent mobility.

In copiers, I expect to see digitalisation and network connectivity create new generations of products that handle everything from document copying to distribution and storage. We will be launching innovative products in this area and using them to consolidate our market position.

Exciting Years Ahead, with a Slew of Innovative Products Coming to Market

We are also bringing DVD to the European market. I am sure the excellent image and sound quality of DVD-Video will have a major impact, even to the point of stimulating demand for large and wide-screen TVs. Beyond that, I see DVD-ROM drives replacing CD-ROM drives in PCs, first in high-end computers, then in most models.

Looking a little further to the future, advanced digital networks are going to have a major impact on how we work and entertain ourselves. We are developing the infrastructure technologies required for these networks, including high-speed ATM switches and routers.

Williams: *And a final comment?*

Nishimuro: I'm pleased to say I shall be playing a more direct role in introducing new products. Last March, in Tokyo, we held a six-day exhibition of our emerging technologies and products, "Tomorrow 21". I will chair the committee responsible for bringing those technologies to market. I'm really looking forward to it. I think you will be seeing some startling new products from Toshiba.

In Touch with Tomorrow

TOSHIBA

BUSINESS BOOKS

Corporate re-engingeering - with a smile

***Jeremy Myerson** finds that learning how small companies build an innovation culture in order to succeed and grow does not necessarily make dull reading*

Winners! How Today's Successful Companies Innovate by Design
By John Thackara
Cower, 480 pages, £18

Thay line every airport bookshop – rows of business-panacea volumes which purport to tell you how to be a manager in minutes or make a million in weeks, how to re-engineer your company or discover its soul. *Winners!* parodies the formula, especially in its racy title, puncby graphics, relentlessly upbeat case studies and fondness for checklists. But it does so with tongue firmly planted in cheek.

This is not the latest would-be bestseller from the school of American management gurudom, designed to drum up trade on the lucrative executive conference circuit. Its English author and editor John Thackara admits at the outset that there are not 10 easy steps to building an innovation culture within your company.

Instead he makes the case for ateadily building knowledge about best practice as the smartest way to beat the competition. He is careful to avoid instant panaceas and derives most of his data from the winning companies in the European Design Prize 1997, sponsored by the European Commission.

In fact, here is a book that will set the Eurosceptics' teeth on edge. It arrives via the bureaucrats of Brussels and comes complete with an anodyne preface by Edith Cresson, the European Commissioner for research, education and training. However, its message about the future of Europe in the context of changes in design, technology and business culture is one that is hard to dismiss.

The bottom line is that Europe is becoming increasingly dependent on its 16m smaller companies which now account for two-thirds of all jobs. To compete successfully and grow, those companies must innovate, bence the European Design Prize's energetic promotion of new ideas, technologies, markets and products.

Thackara, a former journalist and bead of research at the Royal College of Art in Loodon, is today director of the Netherlands Design Institute in Amsterdam. He has marshalled the 75 prize-winning companies – shortlisted from 365 companies across Europe – into different categories of innovation.

There are innovators that literally reinvent the wheel – the fast-growing UK company Dyson, for example, has introduced bagless vacuum cleaners to our homes while the Norwegian chair maker Stokke has encouraged executives to hold their meetings while in the reclining position.

Then there are innovators that have responded to the ecological movement, with waste disposal units, recycled domestic accessories and, in the case of British enterprise ITG, wound dressings for the healthcare sector made from biodegradable materials such as seaweed and chitin, a sugar extracted from prawns and seashells.

There are innovators that specialise in customising their products in order to meet the differing needs of customers, such as Austrian watch strap maker Hirsch or German furniture manufacturer Vitra; innovators that are providing tools for urban regeneration, such as makers of playground equipment, street furniture, emergency lighting and signage; and innovators that are combining technology with the body, such as producers of hearing aids, brain scan helmets, childrens'a spectacle frames, and heart and blood pressure monitors.

Wherever there are problems – such as inner-city decay, ageing populations, straining social services, job insecurity, environmental fragility – Thackara sees the positive side in terms of the new market opportunities that they create.

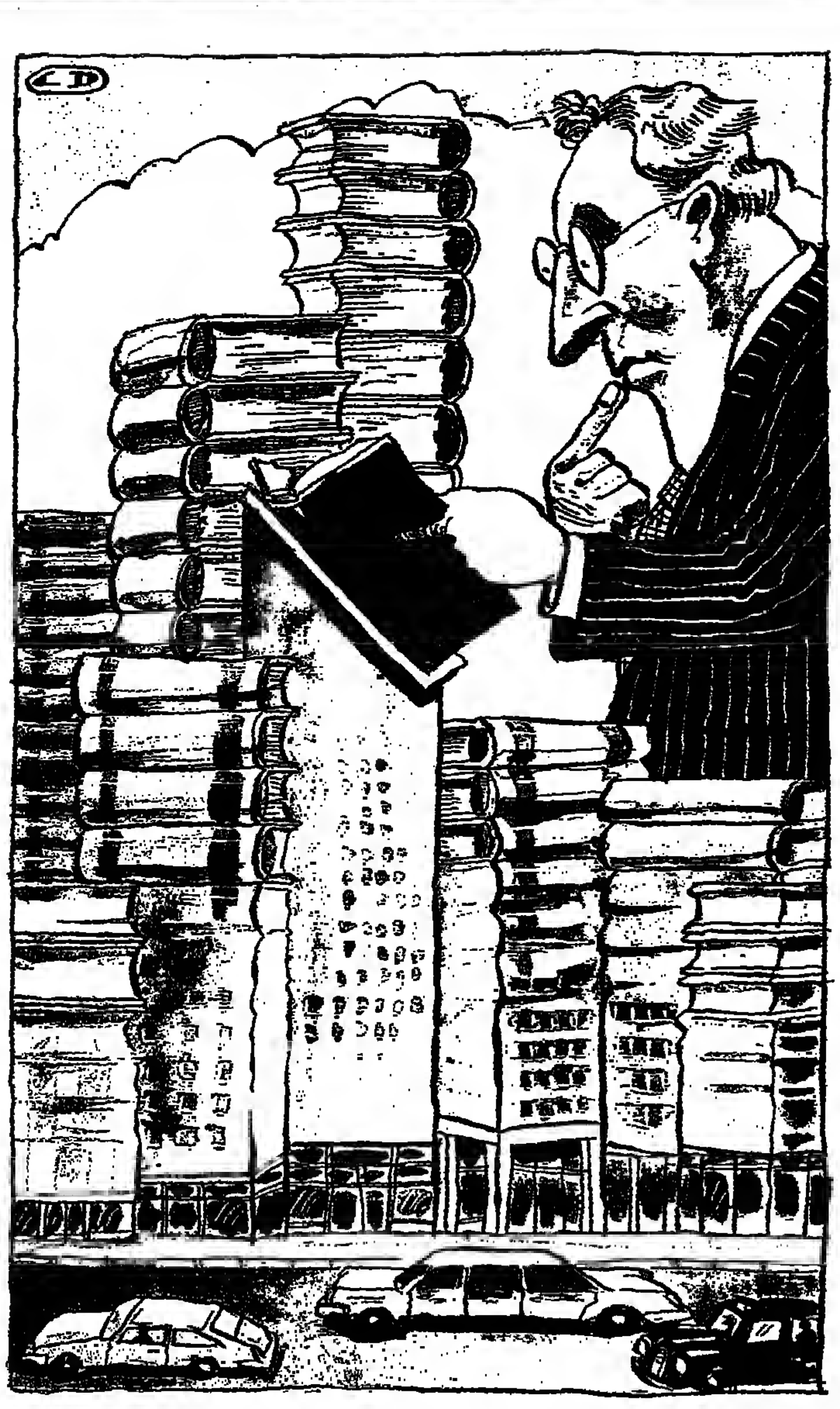
And his fact-file, gleaned from sources across the world, fairly bulges with evidence to support the European Union's definition of innovation as "a state of mind combining creativity, entrepreneurship, willingness to take calculated risks, and an acceptance of some social, geographical or professional mobility".

With entire pages devoted to bold statements which tell us that people with hearing difficulty wait an average of seven years before seeking help or that the European ticket market will reach 1.2bn tickets a year if each adult buys two tickets every week, much of the material in *Winners!* is irritatingly banal and intensely fascinating at the same time.

There is an almost tonching faith in new technology – in the wonders of smart materials, microchips and the internet – that is never allowed to waver because, to put it in crude terms, Europe has no option but to innovate its way out of a deepening demographic and economic hole.

In a curious way, *Winners!* makes its own contribution to the post-election debate about Britain's role in Europe – with the suggestion that isolationism will not help small innovative companies to grow.

Bnt the book has the good sense to do so witb the brisk flourisb of standard airport lounge business reading. The only things that are missing are the gold-embossed letters on the cover.



Knockabout fun rings with truth

*Behind the satire this volume uses to swipe at the solutions of quick-fix business gurus, **Peter Aspden** finds plenty of good advice*

The Book That's Sweeping America! or Why I Love Business!
By Stephen Michael Peter Thomas
John Wiley, 165 pages, £14.99

One would think that, like movies abont airplane disasters and the television mannerisms of John Major, certain types of self-help business book have ventured well beyond the grounds of parody. Yet here comes *The Book That's Sweeping America!*, a satirical swipe at all those shrill panaceas and breathy commands to re-order your life, or else.

The targets are well-judged – the flow diagrams, tbe pie cbarts, the banai observations masquerading as homespun wisdom – but the most worrying thing about the book is bow much of it can be taken seriously.

For example, in tbe section entitled "Resisting Change: The Forgetting Organisation", is there not a smidgeon of truth in the conclusion that: "People learn best from each other. But in downsized organisations, virtual organisations, or organisations with high turnover, there may not be anyone who has been on staff long enongh to teach anything"?

The chapter on leadership asks us to "cboose our own style" from a range of role models: Don King ("action-oriented"), Karl Marx ("good with concepts"), Madonna ("ontspoken, leads by example").

All of this is rather silly but then we see a frighteningly realistic "pyramid paradigm" which puts management consultants at the top, training "experts" in the middle and, propping things up at the bottom, former employees that are on long-term contracts. It can be too near the knuckle to be funny.

Weary executives wbo have sat through endless second-rate residential courses will recognise the tone of the fatuous bomilies of the chapter headed "The Future Is Tomorrow: Time is getting shorter. Speed is getting faster. We're arriving at the New Millennium sooner than was predicted. We're building tomorrow today, or tomorrow morning at the very latest. You're not getting any younger".

This is all good, knockabout fun, a tempting *amuse-gueule* if you are browsing in an airport bookstall and cannot quite stomach tbe earnest tomes displayed all around you promising instant success if you follow their exhortations.

Bnt the book also bints at a deeper trutb: that the age of the quick-fix business guru could be over.

The Book That's Sweeping America! takes a swing at most of the prevailing tbeories of recent years; its bumour is unsnbtle, only intermittently amusing. But it bas homed in on a widespread impatience witb the cbeap slogans that are offered as serious advice by so many authors on the make.

The changes in world politics over the past 10 years and tbe increasingly internatiooal nature of business have created a demand for proper, illuminating analysis. There is an acute understanding that the world's complexities cannot be reduced to tables of "How To" bullet points. It is perhaps a sign of the maturity of the business book market that *The Book That's Sweeping America!* can be publisbed at all.

Not that any of this worries Stephen Michael Peter Thomas. He knows wbicb way the wind blows: "Good presentation skills, a modicum of knowledge, and plenty of bigh-level 'strategy talk' can make you as much money – and possibly lots more – tban long bours and hard work."

Now tbat can't possibly be true, can it?

The contrarian approach

***Philip Coggan** wonders whether this colourful but ruthless American trader is a money master or simply an eccentric*

The Education of a Speculator
By Victor Niederboffer
Joho Wiley,
444 pages, $29.95

Most of us must have wondered what it takes to be a financial speculator; pitting your wits and your capital every day against smart minds, big money and the apparently arbitrary movements in stock, bond, commodity and currency prices.

If Victor Niederhoffer is any guide, what you need is arrogance, ruthless determination, a passion for statistics, intellectual curiosity and the ability to recover from crushing defeats.

This is an extraordinary book, one of the oddest you will ever read about finance and it is hard to tell by the end whether Niederhoffer is a money master or merely an eccentric.

In the course of the book, Niederhoffer compares financial markets, at length, to checkers, sex, music, squash, ecology, horse racing and poker. There is little in the way of practical advice; no-one could read a chapter and decide, for example, to sell BP and buy Microsoft.

What Niederhoffer is trying to impart is an attitude of mind – the book might be subtitled "Zen and the Art of Money Management".

Niederhoffer is a commodity trader, associate of bedge fund guru George Soros and a former lecturer in finance. Brought up in Brooklyn, New York, he draws on the lessons taught by his family and the colourful friends formed in his youth.

He was sufficiently athletic and determined to become US National Squash champion fiva times. Despite this, the only five private squash clnbs in Chicago would not admit him as a member because be was a Jew. Small wonder that he relishes the role of lone trader battling against the big boys in the market.

As a trader, Niederhoffer's main strategy seems to be to look for patterns – relations between the prices of different securities, tendencies for sharp price falls to be quickly reversed – which can be mathematically tested and profitably exploited.

This contrarian approach to investment can be highly profitable in the long run but disastrous in the short run, especially as traders such as Niederhoffer are borrowing to finance their positions. They can face "gamblers' ruin" – running out of money before the laws of probability assert themselves in favour of their systems.

A further difficulty is that market relationships change constantly. January and August may have been the best months to buy shares in the past but will not necessarily be so in the future. Any anomaly that can be easily spotted will attract a host of buyers and will start to disappear; for example, there is evidence that investors have started to buy shares in December to take advantage of the January effect.

One of tha most endearing elements of the book is Niederhoffer's concentration on his trading failures, rather than bis successes. He was nearly ruined by the 1987 crash. But to his mind, it is more important to learn lessons from defeats than from victories.

Niederboffer has plenty of pointers on how to avoid losses, notably by pointing out the spread or "bid" which many in the financial markets take when trading with the public. "In stocks, the bid/ask of a quarter on a $10 stock quoted on Nasdaq comes to 2.5 per cent. Not bad, until you realise that with a turnover occuring four times a year, the entire 10 per cent a year secular trend that favours stock market investment is erased".

Readers will have widely differing reactions to this book: some will find it fascinating, otbers will throw it away in disgust at the anthor'a meanderings. But there is far more original thought in its pagea than in many libraries of business tomes.

More about brains, less about brawn

***Richard Donkin** is left in no doubt that information and knowledge are becoming the world's most powerful resources*

Intellectual Capital, The New Wealth nf Organisations
By Thomas A Stewart
Nicholas Brealey,
261 pages, £16.99

What kind of a society would wa have if just 2 per cent of the population could produce all the goods needed by society – the cars, the hi-fi's, the television sets?

This qnestion was posed by George Bennett, the founder of Symmetrix, a Massacbusetts-based consultancy. Tbomas Stewart gives the question some resonance wben he points out that it is already the case in the US that less than 3 per cent of the population grows all the food that it needs.

The suggestion is that wbat remains is a knowledge society – a society that deals in information, works in information and profits from information. Stewart leaves us in no doubt that knowledge is quickly becoming tbe world's most powerful resource.

He illustrates just bow quickly this is taking place by charting the development of the beer can, which was once made of steel bnt is now, in most cases, made of aluminium. The move to aluminium – a more expensive metal – was made possible by a series of progressive improvements in manufacturing which gradually reduced the weight of metal per can, making aluminium increasingly viable. Today'a can, be argues, "contains dramatically less material and energy – and more brains".

But knowledge, unlike steel and aluminium, is not tangible. Harnessing the intangible and exploiting it for profits needs new approaches and structures. Failure to grasp this lesson has cost some of the best companies dearly.

Take Sony, for example, which was concerned to protect Betamax, its proprietary video-tape system from cloning. Matsushita licensed the rival VHS system cheaply to its competitors, creating a vast family of users, leaving Betamax to wither, starved of a market.

Appla made the same mistake with its Macintosh. This explains why companies such as Netscape and Sun Microsystems give away copies of their software, profiting instead from the various applications. "We want ubiquity first, then profitability," says Eric Schmidt, chief technology officer at Sun.

It is not just business that has often failed to understand the valne of knowledge. The accountancy profession has also been slow to recognise this sometimes invisible asset.

Stewart brings some long-overdua insight into the way that businese needs to change its management and employment structure if it is to exploit the accelerating speed of development brought about by the information revolution.

Ha dismisses sceptics who suggest that the old hierarchies are prevailing and that the new structures are less applicable outside the confines of Silicon Valley.

Few companies can afford to be complacent. It was only 1987 that Fortune magazine declared Thomas J. Watson Jr, the one-time leader of International Business Machines as "the most successful capitalist in history". That was just six years before IBM lost a third of its work force and all of its profits.

The old corporate bonds tying employees to companies are melting away. The new careers, argues Stewart, are made within projects and markets, not hierarchies and not necessarily within an organisation. They are driven by expertise, not from a position. One problem with these changes, be concedes, is that too often employees are givan mucb greater responsibility but do not have anthority or control budgets.

This can frustrate a project leader. But the success of one project confers reputation which helps to build the necessary authority and scope for the next one.

Tbe text lays down some important ideas on the organisation of today's businesses. Stewart'a arguments are persuasive, founded on a wealth of detailed evidence and presented in a fluid mix of anecdote and statistics. If there is one omission in a book dedicated to tha businesa of knowledge, it is the lack of an index.

Neither is there much in the way of inspiration from those who have successfully exploited this great resource of the information age. What, for example, have they chosen to do with their naw-found wealth? They haven't given it away. Instead they have built mansions "every hit as vulgarly luxurious as those built in Newport, Rhode Island, by the tycoons of the last century."

Some things, it seems, never change.

Prognosis full of pessimism

*Thailand's rapid economic rise has left its people torn between adherence to traditional ideas and embrace of western culture, says **Victor Mallet***

Thailand's Boom!
By Pasuk Phongpaichit
and Chris Baker
Silkworm Books, Chiang Mai,
Thailand. 271 pages.
baht 420 (US$17)

Ona of a naw wave of tboughtful non-fiction books about the fast-growing economies of south-east Asia, in spite of its exclamatory title, *Thailand's Boom!* digs much deeper than the superficial analyses of business trends and works of Asian triumphalism wbich bave burdened tbe region's hotel and airport bookshops for the past decade.

The wife-and-busband team of Phongpaichit and Baker have sought to explain how a whole society is being transformed by an industrial revolution of unprecedented speed, producing new sorts of entrepreneurs, consumers and politicians, as well as changed moral values and a crisis of identity for Thais who are torn between tradition and modernity.

Although such subjects have been addressed in the academic press – the authors themselves produced the weighty *Thailand: Economy and Politics* in 1995 and Phongpaichit is Associate Professor of Economics at Chulalongkorn University in Bangkok – little has been made available in English to the general reader.

The book begins with a competent but conventional description of Thailand's economic success story: the rise of the Thai-Chinese businessmen and their long-standing linka to the armed forces; Japanese investment in the country and the promotion of export industries; and finally the inclusion of 11 Thai families in Forbes magazine's list of dollar billionaires.

Where it differs from earlier books is that it asks – and attempts to provide an answer to – an important question. "The boom has made business a dominant social force. But what sort of society will it build?"

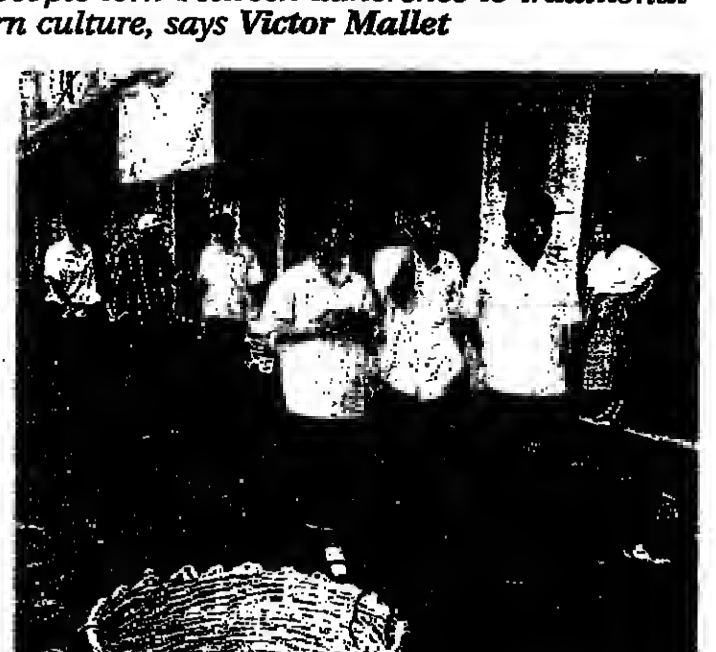
The answers are not encouraging for those who believe that "Asian values" will protect a culturally aecure south-east Asia from the social upheavals that have afflicted industrialising countries elsewhere in tha world.

Thailand's Boom! breaks new ground in examining the rich and confusing mix of cultures that characterises today's Bangkok, and there are parts of the book that no one involved in a consumer industry would want to miss.

The book is especially good on the urban middle class and the obsessions of Thai teenagers, looking at everything from teen romance and popular music to the rise of television soap operas.

Life and language remain distinctly Thai, but cultural imports from China, Japan, the US and Europe – together with the inevitable social changes wrought by migration from village to city – take their toll.

Young Thais hang out in giant shopping malls and no longer defer to their elders, while their parents drink wine, move ont of wooden houses into concrete housing complexes with names like "California Ville," and fall prey to religious cults much like their counterparts in the US. The "luk krung" (mixed race) look is fashionable for the singers, models and actors who are the role modela for Thai teenagers and the look says: "I am Asian but I have borrowed from the west."



Thai teenagers: boom times may have brought growth to their country but by the time they reach adulthood will it be a place worth living in? Sarah Murray

After casting a sceptical eye at the corruption of contemporary Thai politics, the environmental damage resulting from economic progress and the gap between the wealthy middle class and the poor slum-dwellers or villagers left behind by the industrial revolution, the authors ask whether Thailand – perhaps the best example of high-growth capitalism without the rule of law – will remain a country worth living in.

Their answer is that there are two possible scenarios. The "Low Road" scenario takes Thailand into Latin American-style political instability and recession. The "High Road" takes it into better standards of education, greater equity, more deep-rooted democracy and sustained growth.

This book has appeared just as Thailand is undergoing a bout of economic jitters. There is a property glut, the financial sector is vulnerable, the currency is under pressure and exports are stagnant. The fact that the pessimists are likening Thailand's plight to previous crises in Mexico and Brazil means that the Low Road is not as impossible as it would have seemed only a couple of years ago.

BUSINESS BOOKS

Unclear line to the underlying physics

*A biography of the creator of the telephone is let down by its explanation of the science behind the invention, says **Alan Cane***

Alexander Graham Bell is best remembered as the inventor of the telephone, the most important advance in human communications in the past 200 years.

He was granted the critical patent on March 7, 1876, when only 29 years old. In the most insightful passage in this long biography, James Mackay concludes: "It was his greatest achievement and he would never again equal it, far less surpass it, even though the rest of his long life would be devoted to scientific research and speculation."

Mackay draws parallels with a rival inventor, Thomas Alva Edison, arguing that Edison not only had the ideas, but the "discipline, tenacity, highly trained staff, equipment and vast technical resources to bring over a thousand of these ideas to practical, commercial fruition ... where Edison was a hard-headed businessman as well as an inventive genius, Alec Bell was a dilettante".

Capable, when the mood took him, of sustained bursts of inventiveness which saw him working obsessively night after night, he was also notorious for procrastination and neglecting a project when another took his fancy.

Bell came perilously close to losing his opportunity of immortality. Only hours after Hubbard, acting on his own initiative, had submitted a formal patent application for the telephone on Bell's behalf, the attorney for Bell's close rival Elisha Gray, submitted a near-identical specification.

It was, as Bell wrote to his parents, a remarkable coincidence. Whether the result of brilliant minds converging, industrial espionage or the machinations of the Western Union company – out to suppress the telephone for fear of the damage it could do its

Sounds out of Silence: A Life of Alexander Graham Bell
By James Mackay
Mainstream Publishing.
320 pages. £20

telegraph business – is never made clear. The US Patent Office finally granted his application on March 7, 1976, although lawsuits, which Bell won, continued to dog the early years of the telephone industry.

Bell was born in Scotland although he emigrated to the US and took American nationality, finally settling on land he bought on Cape Breton Island, Nova Scotia. His father, Alexander Melville Bell, was a leading authority in elocution and speech correction and the inventor of a system called "Visible Speech" designed to teach speech to the deaf.

While Alexander Graham Bell's scientific interests spanned an enormous range – from the use of light beams to transmit sound to aeronautics – the family tradition in helping the deaf communicate remained a passion.

Bell invented a practical approach to recording sound, became president of the National Geographic Society and experimented with kites and hydrofoils. He established the Volta Laboratory, now an international information centre concerned with the education of the deaf, with prize money awarded by France for his most significant invention.

Today, his enduring memorial is Bell Laboratories, probably the world's most distinguished technology centre, where patents are notched up on a daily basis.

Mackay is a historian and his biography of Bell is strong on facts – too many, in some cases. Individuals make tantalising but sometimes irrelevant appearances before vanishing from the narrative. A more serious weakness is in Mackay's account of Bell's research. The biographer of Robert Burns, William Wallace and Allan Pinkerton among others, he seems to be making his first attempt to deal with scientific and technical matters. There is not enough explanation of the underlying physics to make Bell's achievement clear to the non-scientist while the technically minded are unlikely to be satisfied with Mackay's account.

Bell's complex, volatile character in some ways bridged the gap between the amateur scientists of the 18th and 19th centuries and today's professionals. Mackay lays to rest the notion that he originally envisaged the telephone as a means of disseminating musical performances. Bell, in unusually commercial mode, wrote to his wife: "When people can order everything they want from the stores without leaving home and chat comfortably with each other by telegraph over some bit of gossip, every person will desire to put money in our pockets by having telephones."

Top 10 business titles

In the first of a regular feature we list the current best selling business books at WH Smith Heathrow airport

Title	Author	Publisher
HARDBACKS		
Pocket World in Figures 1997	N/A	Economist
Blood Money	Bower	MacMillan
Rethinking the Future	Various	N.Brealey
80/20 Principle	Koch	N.Brealey
Living Company	De Geus	N.Brealey
Overdrive	Wallace	Wiley
Beyond Re-engineering	Hammer	Collins
Our Currency, Our Country	Redwood	Penguin
Asia's Wealth Club	Hiscock	N.Brealey
Intellectual Capital	Stewart	N.Brealey
PAPERBACKS		
The Road Ahead	Gates	Penguin
Rogue Trader	Leeson	Warner
Winnie the Pooh on Problem Solving	Allen	Mandarin
Learning into the Future	Binney	N.Brealey
Creating Top Flight Teams	Owen	Kogan Page
Art of War for Executives	Krause	N.Brealey
The Way of the Leader	Krause	N.Brealey
Death of Inflation	Bootle	N.Brealey
New Leaders	Taffinder	Kogan Page
Clicking	Popcorn	Collins

LAW

Air challenge grounded

EUROPEAN COURT

The European Court of First Instance has rejected an application by the French airline, Air Inter, seeking the annulment of e European Commission decision on exclusive air services on the Paris/Marseilles and Paris/Toulouse routes from Orly airport.

TAT European Airlines wished to offer alternative flights on these routes and sought to rely on the competition rules contained in the 1992 Regulation on access for EU carriers to intra-EU air rontes.

The regulation provides that EU airlines shall be permitted by the member state concerned to exercise traffic rights within the EU. Member states retain the right to regulate, without discrimination on grounds of nationality or identity, the distribution of traffic within an airport eystem, snbject to Commission supervision.

Exclusive rights could continue to operate for a limited period provided other forms of transport could not ensure an adequate and uninterrupted service.

Following a complaint by TAT that it had been refused access to the routes serviced exclusively by Air Inter, in which the French state had a 70 per cent indirect holding, the Commission ordered France to open the routes to alternative carriers.

Air Inter challenged that decision, alleging infringement of the principles of the rights of the defence, lack of a fair hearing, good faith and proportionality, as well as improper application of the regulation and Article 90(2) of the Treaty of Rome.

Air Inter argued that a person who may be affected by a Commission decision should be able to make his views known before it is adopted.

The Court agreed Air Inter had certain rights. First, it was the direct beneficiary of the state measure complained about, namely the continuation of its privileged position on the two routes in question. Second, it was expressly named in the national instrument which gave it the exclusive rights. Third, the contested decisioo mentioned Air Inter repeatedly.

It therefore had rights of defence which needed to be observed. Nevertheless, the Court said those rights had in fact been observed.

Regarding the lack of opportunity to put its case, Air Inter claimed the Commission notified the French government of its favourable view of TAT's complaint even before the government had had a chance to state its position.

The Court rejected that argument on the ground that the Commission had informed the French air transport authorities that a complaint had been received and eent them a copy of the complaint and a request to submit any comments they might have. In those circumstances, the Commission had placed the French government in a position in which it could effectively make its views known.

Turning to whether Article 90(2) could override the application of the competition rules, the Court said Article 90(2) exclndes the application of the treaty rules insofar as their application would obstruct the performance, in law or in fact, of the particular tasks assigned to an undertaking entrusted with the operation of services of general economic interest.

Air Inter claimed that it performed a general interest task – its contribution to the opening up of a large number of French cities and regions in the context of regional development.

That was possible because of a cross-subsidy of tariffs, which enabled it to finance about 20 unprofitable routes.

That argument was also rejected, although primarily for lack of evidence.

T-269/94: Air Inter v Commission, CFI 2CH, June 19 1997.

BRICK COURT CHAMBERS, BRUSSELS

INTERNATIONAL PEOPLE

Gencor chairman heads for London

Brian Gilbertson (right), chairman of Gencor, South Africa's second-biggest mining group, is to move to London to become chairman of Billiton, the new FTSE-100 company that is expected to begin trading in August.

Billiton will acquire Gencor's base metals interests, which span aluminium, coal, nickel and titanium sands, while the gold and platinum businesses will remain in South Africa. The demerger will divide Gencor's existing board, and ultimately create two independent companies with separate boards.

Gilbertson, who has masterminded Gencor's transformation from a sprawling conglomerate to a focused mining group, will initially divide his time between London and Johannesburg. He will stay on at Gencor as non-executive chairman during the early phase of the separation, before resigning to devote his energies to Billiton in London.

Mick Davis, Gencor's finance director, will quit to join Billiton, where his portfolio will include finance, human resources and Ingwe, the international coal group. He will be followed by Dave Munro, who will run Samancor, the ferroalloy operation, and the mineral sands and nickel units.

Mike Salamon will also leave Gencor, but will remain in Johannesburg to manage Billiton's predominantly South African aluminium and trading businesses.

The decision to divide the new company's directors between the UK and South Africa was influenced by international investors, said Gilbertson. "We are aware that they don't want a group [of directors] shuffling paper in London." He also hoped to appoint a Brazilian director to the board, who would lead the group's expansion in Latin America.

Derek Keys, a previous head of Gencor and a former South African finance minister, is to retire from Gencor, where he ran the group's aluminium interests, to join the new company as a non-executive director.

The moves will create new vacancies at Gencor, which will become a focused precious metals group based in Johannesburg. Tom Dale, managing director of Gencor's wholly-owned gold mining subsidiary, is to take a seat on the board of the restructured company.

Michael McMahon, chairman of Impala Platinum, in which Gencor has a 46.5 per cent stake, and Gary Maude, who runs the international gold businesses, will remain on the Gencor board following the demerger.

Gilbertson said a new finance director for Gencor would be announced shortly.

Mark Ashurst, Johannesburg

Danish bank names tough negotiator

Peter Straarup, 45, who is to succeed Knud Sorensen as chief executive of Den Danske Bank from April 1 next year, has a reputation as one of the sharpest brains in Danish banking, as well as one of the toughest negotiators, which has not made him universally popular.

Appointed deputy to Sorensen in early 1996, he has subsequently been accused of being too aggressive to fit the ultra-prudent image cultivated by the bank. The supervisory board is believed to have formalised his appointment as chief executive more than nine months before he takes over in order to kill speculation that the board had someone else in mind for the job.

Straarup will take over a bank which under Sorensen's stewardship has become one of the leaders in the Nordic market with assets of DKr450bn ($68.5bn).

Earlier this year Den Danske Bank threw down a challenge to the Swedish banks when it bought Ostgota Enskilda Bank, the last independent Swedish provincial bank, and thereby gained a foothold in the Swedish retail banking market.

In Denmark, Den Danske is not only the market leader in banking, but also owns tha leading life assurance company, Danica, and a fast-growing mortgage credit company.

Sorensen, 62, has reached the bank's compulsory retirement age for senior executives, but is expected to continue a busy career with seats on the supervisory boards of some of Denmark's leading companies.

Hilary Barnes, Copenhagen

Jusco picks successor to arrested Tanaka

Jusco, Japan's third-largest supermarket chain operator, has named its senior managing director, Motoya Okada, as president, to replace Kenji Tanaka, who was arrested earlier this month in connection with the racketeer pay-off scandal surrounding Dai-Ichi Kangyo Bank and Nomura Securities.

Tanaka was formerly an executive of DKB. The bank has admitted illegal dealings with *sokaiya* corporate racketeers. Tanaka was arrested with several other former DKB officials for allegedly conspiring to arrange illegal loans.

DKB is Jusco's main bank and largest shareholder with a 4.61 per cent stake. But it is unlikely Jusco will change its banking arrangements, according to company officials.

Okada, 45, is the son of the company's chairman, Takuya Okada. He has previously served as president of one of Jusco's subsidiaries, tha Japanese unit of Talbots, a US women's clothing retailer.

Gwen Robinson, Tokyo

ON THE MOVE

■ EXXON CORPORATION has elected Donald D. Humphreys vice-president and controller with effect from July 1. He succeeds W. Bruce Cook who has chosen to retire after more than 34 years' service.

■ SEAGRAM'S US subsidiary, Joseph E.Seagram & Sons, has appointed Frank Mergenthaler vice-president, controller, with effect from July 1. Mergenthaler joined Seagram in 1996 as assistant treasurer, international.

■ ANGLO AMERICAN has announced the appointment of Mr Philip Baum and Dr Robert (Bobby) Danchin to the board. Baum is chief executive officer of Anglo Amercian Corp Zimbabwe (Amzim), and was an alternate director of Anglo American. Danchin is the chairman of Anglo American's new mining business division as well as the Anglo Group's deputy technical directly (geology).

■ Guy de Froment will join PARIBAS on July 1 as head of financial asset management and institutional asset management. He has been appointed a member of the executive committee and will report to François Debiesse, head of asset management. He has been managing director of BZW Investment Management in London since July 1995.

■ SUMITO FINANCE INTERNATIONAL, has named Atsuo Konishi as chairman, in succession to Kensuke Hotta. Sumio Fukushima has been appointed chief executive, having previously been general manager of Sumitomo Bank's financial engineering department in Tokyo, with responsibility for product development.

■ South American food conglomerate BUNGE INTERNATIONAL has appointed Oscar de Paula Bernardes Neto as its new chief executive officer. Bernardes succeeds Ludwig Schmitt-Rhaden, who has been elected chairman.

■ NORTHLAND CRANBERRIES, the world's largest cranberry grower, and manufacturer of Northland brand cranberry juice, announced the appointment of board member and General Mills executive Jerold D. Kaminski to the position of president and chief operating officer.

■ SPAINCO has appointed David Colley, 41, as director general. Spainco, set up by Bank of America and GE Capital Services, owns 32.5 pct of Cableuropa, the Spanish cable television and telecoms group. Colley, a British executive, previously worked at Videotron, one of the UK's main cable operators.

■ CANADIAN NATIONAL has appointed Frank Trotter as president and chief executive officer of CN's CANAC subsidiary, based in Montreal. He will be responsible for achieving significant growth for CANAC as a leading supplier of rail related services to railways and industry throughout North America.

■ Don Calder has been appointed president and chief executive officer of BC TELECOM with effect from July 2. Calder is currently executive vice-president of Network Services. He joined BC Tel in 1971. BC Telecom is the second-largest telecommunications company in Canada.

■ Australian retailer WOOLWORTHS has named John Dahlsen as chairman. He replaces John Iliffe, who died in May. Dahlsen was appointed a director of Woolworths in August 1992. He is currently a director of Austrialian & New Zealand Banking Group and Southern Cross Broadcasting.

■ BLACK & DECKER has announced the appointment of Frederik B. (Frits) van den Bergh to the position of president, Europe, power tools and accessories, with effect from July 1. Most recently van den Bergh was executive vice-president of Coleman Company, and president of Coleman International.

■ Daniel W. Colson has been appointed to the board of THE MOLSON COMPANIES of Canada, whose main business is the brewing and marketing of beer and related sports and entertainment activities. Colson was most recently chief executive and deputy chairman of Telegraph Group.

■ HONG KONG TELECOMMUNICATIONS has announced that Henry H. L. Fan and Vernon F. Moore have tendered their resignation as non-executive directors of the company. The resignations follow the completion of the sale by Citic Pacific of its entire 7.74 per cent shareholding in the company to China Everbright Holdings.

■ BZW SECURITIES (JAPAN) has appointed Chris Calderwood as Japanese equity market strategist. Calderwood graduated from Britain's Cambridge University in 1989 with a degree in economics and joined BZW. In addition to work in London, he served as BZW's chief economist in Japan between 1992 and 1996, when he returned to the UK.

■ Alexander Kramer has been appointed to head the newly created Trade Finance Group at AMERICAN HONDA MOTOR, in Torrance, California. He is currently a board director of the Export Managers' Association of California, one of the largest and oldest export associations in the USA.

■ French biotechnology company BIOVECTOR THERAPEUTICS has reinforced its board of directors with the appointment of Ariel Elia as non-executive chairman of the board. Elia has spent more than 30 years working in international pharmaceutical groups, including Merck & Co, and most recently as president and chief executive of Jouveinal Laboratories in France. Biovector Therapeutics aims to become a leader in the delivery of proteins/peptides and nucleic acids using its proprietary delivery technologies.

International appointments

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ARTS

The Venice Biennale/William Packer

Pavilioned in splendour

Outside the main exhibition of the Venice Biennale, Germano Celant's *Future, Present, Past* of which I wrote on Saturday, things improve. Bnt the Biennale is never without some monsters, nor trua to itself if some do not walk off with prizes.

True to form, the jndges handed the *Premio Paesi* for the best national pavilion to what was commonly held to be the worst, the French, turned hy Fabrice Hybert into a studio in which to film his own participation in the Biennale by, well, filming his own participation in the Biennale. In booths around the sides his crew is hard at work, "writing" and "editing" wben not pointing cameras at the bemused visitor. The citation praised it for being "a new conception of the Pavilion less as a finished work than as e window giving onto the external, in which the world of art works."

There are indeed more interesting pavilions-as-installation, notably the Greek, in which Dimitri Alithinos has taken up the floor to sink a row of pits far below, and the Japanese, where Rei Naito somewhat preciously has put up an oval canvas enclosure into which one peeps, as it were s visitor from space, upon a microcosmic world. I also liked the swarms of arrows that Ivan Kafka has hung so carefully in the Czech Pavilion; and the tank outside the Nordic Pavilion, full of mud from the lagoon which Mark Dion is excavating, displaying his miscellaneous finds on the edge as they appear.

But best are the pavilions showing art as art, and it is gratifying to see painting and sculpture more in evidence than usual. Although there has been no British painter under 50 shown at Venice since John Walker to 1972, and no sculptor over 50 since Henry Moore at 50 in 1948, I have to say that our British champion this time, immaculately displayed by the British Council, is impressive. Rachel Whiteread, she of the filled-in spaces beneath chairs and tables, of the room turned inside-out, of the house removed to leave only the solid space within, thoroughly deserves her *Premio 2000* for an artist under 40. Her display is a summary of her career, culminating in an entire room, the white ghost of a library lined with the negative mould of the shelves and books.

The other outstanding sculptor is Al-Ghoul Ali Ahmed, who has filled the Egyptian Pavilion with monumental structures redolent of wells and gateways in the demotic tradition, yet with something of the hieratic presence of a more ancient Egypt.

As for the painting, best is the minimalism of the Swiss, Helmut Federle, whose methodical severity belies the richness of a surface which, almost secretly, works to subtle and curiously romantic imaginative effect. He, far more than the formulaic Gerhard Richter, deserved a *Premio Internazionale.*

At the other extreme is Maxim Kantor in the Russian Pavilion, with a defiantly old-fashioned flurry of energetic figurative expressionism, even though the angst is somewhat overdone at times. With no pavilion of their own, the Chinese have taken the Ca' Corner della Regina on the Grand Canal, which also holds the Biennale Archive. Their artist, Chen Yifei (also showing at Marlborough Fine Art in London), works from photographic reference, bnt any close fidelity to his source is confounded hy the sheer size of the work. The handling is vigorous and free, at times almost to the point of abstraction, with odd echoes of that undeservedly forgotten English star of early Biennales, Frank Brangwyn.

The Portuguese too are outside the gardens, showing their artist, Juliao Sarmento, to the Palazzo Vendramin, his cryptic, fragmentary images fraught with an ambiguous sexual and moral tension. Also on the Dorsoduro, to the cloisters behind the Gesuati, is a mixed show, *Modernities and Memories,* that brings together recent work from the Islamic world, from Indonesia to Mali. Notable are the strange leather wraps, like flayed skins, of Inci Eviner from Turkey, the paintings of Sylvat Aziz from Pakistan, and the simple totemic wood-carvings, boats and boxes, of Anusapati from Indonesia.

The resolution of ethnic and cultural tradition with modernism is a contemporary problem faced by artists from Japan to Mexico. Back in the gardens, the Australian Pavilion shows three artists of Aboriginal origin achieving authentic personal solutions. The pure sculptural quality of Yvonne Koolmatrie's rush-woven eel traps quite transcends ostensible function. Judy Watson's delicate traceries reimposes ancient signs and images upon a sophisticated ebstrect ground. And the late Emily Kngwarreye, with her stripes of rich, lush paint, dancing together with a natural energy and intuitive accord, leaves us the most immediately engaging paintings in the entire Biennale.

The 47th International Art Exhibition – *La Biennale di Venezia:* the *Giardini di Castello,* the *Corderie della Tana* and elsewhere in Venice, until November 9.

Rachel Whiteread, deserving winner of the Premio 2000, with her 'ghost library', part of her display in the British Pavilion

Judi Dench and Samantha Bond in David Hare's new play, 'Amy's View' Alastair Muir

Theatre/Alastair Macaulay

Flawed play saved by its star

The supreme virtue of *Amy's View,* David Hare's new work, is that it challenges Judi Dench to keep revealing different layers of herself, now comic, now tragic; and the supreme reason to watcb *Amy's View* is to see how transportingly she does so. Alone of its six characters, she is present in all four acts, travelling in time from 1979 to 1995. She takes charge of the work's entire meaning and its world, from her first entrance on. And yet what she gives you is the plsy Hare meant to write. She is never once tripped by what he did write: in which – apart from her central contribution – it is never seriously possible to believe.

Dench plays Esme Allen, a star actress and widowed mother; her daughter is the Amy of the play's title. Esme is, by turns, both shallow and profound, selfish and generous, outspoken and hypocritical. Often Hare seems to hava modelled her on Judith Bliss in Noël Coward's *Hay Fever:* possibly more theatrical offstage than on, and hilarious on the subject of colleagues and her own style.

Yet there is little humour or glamour left by Act Four. Now, in 1995, Esme's daughter has died and her own finances have been wrecked. Esme/Dench now lives only in her resurrected stage career. She seems to have been tempered by every ordeal, so that she can even converse with her ex-son-in-law, the late Amy's husband, a critic-cum-filmmaker whom she has never liked and who she believes did most to cause Amy's unhappiness and death. Then, in calm absorption, she goes onstage for her evening performance. We see her and her young co-actor, in costume, prepare for curtain-rise by pouring water over each other's heads. Why, we never know; but the simple ritual is, at this stage of *Amy's View,* profoundly satisfying. The young actor anoints the old; the old actor baptises the young. The gesture of immersion speaks of commitment to both life and art. And, by this stage, you have travelled with Esme/Dench some large journey in your own soul.

Why is *Amy's View* so called? Amy's view, according to characters other than Amy herself, is that "love conquers all". However, neither Amy's mother (Esme) nor her husband Dominic – though they both love Amy in their respective ways – have much truck with this view. Painful honesty or loving conciliation? This dilemma is the main tension of *Amy's View:* which is, at its best, a modern variation on Molière's *The Misanthrope.* Soon enough, Esme and Dominic at least agree to disagree; and Amy, between these poles, is torn. Only when she has been dead for some time, does Dominic try to bridge the gap between himself and Esme: to try Amy's view.

It is a charming, funny, serious, interesting, empty mess – with flaws that playwrights with a tenth of Hare's experience would know to avoid. Some of its flaws are accidental: notably that Amy herself does not practise what she preaches. Not once but twice she runs out of her mother'e house, rejecting her. She isn't, in fact, much of a daughter: aged 23 in Act One, she admits ehe hasn't even realised that Esme's current play is still running in the West End. An equal problem is that neither we nor Esme are given a chance to find any of the merits Amy finds in her husband, Dominic. He is – says she – intellectual, funny, gentle. Oh yes? Hare provides zero evidence to support this. (That Dominic is even more crass than most bad critics is obvious – to us, if not to Hare.) And some of Hare's flaws are, alas, deliberate. He has a sub-Ibsenist technique of revealing to the audience, well into a scene, what has been known to everyone onstage before curtain-rise. By the time he tries this again in Act Four, clobbering us after several minutes with the surprise news that Amy has died, we feel unpleasantly manipulated.

As Dominic and Amy, Eoin McCarthy and Samantha Bond play the roles that Hare wrote: which is not, alas, enough. McCarthy is handsome and angry, Bond – as in every roles she plays these days – is rational, sensitive, and pint-size. Joyce Redman is charming in the ageing diminuendo of Evelyn. The best performances are from Ronald Pickup as Esme's washed-out old neighbour Frank and Christopher Staines as the young actor Toby.

Amy's View would work twice as well in a theatre smaller and narrower than the Lyttelton, and Eyre's production does nothing to ease this problem. Bob Crowley's main set is handsome but artificial. Only Dench and Staines are fully audible to those sitting on the peripheries of this wide auditorium. Amid its other virtues, Dench's performance is an object-lesson in projection – and yet you are never aware that she is projecting at all.

In National Theatre repertory at the Lyttelton Theatre, South Bank, SE1.

Opera/Andrew Clark

Costume drama meets comic-strip

Sunday's performance of *Die dgyptische Helena* (Helen in Egypt) at Garsington had a special significance – not just in Britain, but for sdmirers of Richard Strauss everywhere. It was the UK stage premiere of the least loved of the six operas Strauss wrote with Hugo von Hofmannsthal. It was also a bold re-imagining of a work which has always seemed too contrived to succeed on its own terms. Conducted by Elgar Howarth, designed and directed by David Fielding and sung by a well-balanced cast, the result went far beyond expectations. It may not win many new friends for Strauss, bnt it proves that *Die ägyptische Helena* is theatrically viable – something not even the last Munich production, which I saw in 1981, managed to do.

Hofmannsthal has taken most of the blame for the opera's neglect: his scenario for the first act repeats itself in the second without making anything clearer. But Strauss is equally culpable. Apart from some ethereal woodwind themes and bizarrely exotic brass perorations, *Helena* is Strauss on auto-pilot, with several ideas unashamedly recycled from *Die Frau ohne Schatten.*

The plot is a fanciful exploration of how Helen was reconciled with Menelaus after her seduction by Paris. Hofmannsthal throws in an Egyptian sorceress, an Arab sheikh, a sea-shell which can see and recount everything, and a *Tristan*-esque brew of potions – except that in *Helena,* in place of death comes complete memory of the past, and the realisation by busband and wife that their love is indestructible.

This dramaturgical hotch-potch emerges as the perfect vehicle for Fielding'e talents. Never one to take an opera st face value, he hints at all the different layers on which *Helena* works – mythological, metrimonial, psychological – while bathing them in an operetta-like irony entirely in keeping with Hofmannsthal's conception.

The matrimonial confrontations resemble e 1950s Hollywood costume drama, in which Helen plays Barbara Stanwyck. Tha goings-on around her, by contrast, are pure comic-strip: Altair's entourage is a bevy of Arab businessmen in Arafat-like head-towels, while Poseidon's men are security guards brandishing harpoon-guns. The all-knowing sea-shell comes to life as Aithra's *alter ego,* a black magic figure who indulges in mysterious sign-language. Fielding's chic choreography is one of the production's delights; so is his triangular set, a simple, surreal solution to the opera's preposterous posturings.

The beauty of the staging is that it treats the plot seriously enough to engage our attention, but lightly enough to stop it dissolving into the most awful kitsch. Fielding cannot hide the vacuousness at the heart of each act, but the principals match his visual inspiration all the way. Susan Bullock's Helen encourages us to take Strauss's embodiment of female beauty with a pinch of salt: what she lacks in sensuality, she makes up in raw conviction, persuading us that hard vocal glitter is what the role really needs. As Menelaus, John Horton Murray demonstrates that Strauss did, after all, know how to write for tenor. Helen Field's Aithra looks and sounds possessed, while her nubile servants, Yvette Bonner and Helen Astrid, almost steal the show with their Egyptian hairstyles and catwalk costumes.

That all the voices come across so crisply is a tribute to Elgar Howarth's control of the orchestra. Some of the string detail is lost – perhaps the patter of the rain was to blame on Sunday – but there is ne'er a hint of bombast; and Howarth convinces us that, notwithstanding Strauss's tendency to meander, the score unfolds in one big broad line from start to finish. On the strength of this, can we now have *Die Liebe der Danae?*

INTERNATIONAL ARTS GUIDE

AMSTERDAM

EXHIBITION
Stedelijk Museum
Tel: 31-20-5732911
● Nan Goldin: I'll be your Mirror – Photography 1972-1996: display of uncompromising diary pieces by the New York photographer, showing the underside of the city's glamour; to Aug 17

ATHENS

EXHIBITION
Ergostassio/School of Fine Arts
Tel: 30-1-4819666
● Joseph Beuys: exhibition featuring a number of the German artist's drawings and engravings; to Jul 6

BERLIN

EXHIBITION
Museum für Ostasiatische Kunst Tel: 49-30-8301382
● Das Weisse Gold des Fernen Ostens: exhibition featuring 50 Chinese and Japanese blue-and-white porcelain pieces from public and private collections in Berlin. The porcelain was orginally imported in the 17th century by the Dutch East India Company and was enthusiastically received by the European aristocracy; to Nov 2

BOSTON

EXHIBITION
Museum of Fine Arts
Tel: 1-617-267 9300
● This is the Modern World: Furnishings of the 20th Century – exhibition of over 85 pieces created in Sweden, France, Italy, and England. Objects spanning the entire century and illustrating the diversity of 20th-century decorative arts, include furniture, ceramics, metalwork, glass and plastics; to Jul 1

COLOGNE

EXHIBITION
Museum Ludwig
Tel: 49-221-221 6177
● Car Park-Ein Projekt von Sarah Lucas: photographic installation by the British artist, featuring images of a multi-storey car park, each taken from a different viewpoint, creating a 30 effect; from Jun 25 to Aug 17

EDINBURGH

EXHIBITION
Royal Scottish Academy
Tel: 44-131-225 6671
● Royal Scottish Academy's 171st Annual Exhibition: exhibition featuring works by many of Scotland's leading contemporary artists, sculptors, printmakers and architects; to Jul 5

FRANKFURT

EXHIBITION
Schirn Kunsthalle
Tel: 49-69-299 8820
● Pietro Donzelli: display of work by the French photographer, featuring 130 documentary and reportage pieces from the 1950s and 1960s, shot in Italy and including the series "Land Without Shadow"; to Jul 6

LAUSANNE

EXHIBITION
Fondation de l'Hermitage
Tel: 41-21-320 5001
● Charles Camoin 1879-1965: display featuring 100 paintings, pastels and drawings from a number of private and public collections. Camoin was a contemporary of Matisse, Marquet and Manguin, with a lively, sweeping style that captured the glittering lights of the Mediterranean; from Jun 27 to Oct 5

LONDON

CONCERT
Wigmore Hall
Tel: 44-171 935 2141
● Dame Gwyneth Jones: performance by the soprano, accompanied by the pianist Dominic Harlan. The programme includes works by Wagner, Sibelius, Duparc and Strauss; Jun 28

JAZZ
Royal Festival Hall
Tel: 44-171-960 4242
● Dionne Warwick: performance by the singer, accompanied by the BBC Concert Orchestra. The performance includes works by Bacharah and David; Jun 28

MADRID

EXHIBITION
Museo Nacional Centro de Arte Reina Sofia Tel: 34-1-4675062
● Eugenio D'Ors Critico de Arte: display tracing the developments of Spanish modern art throughout this century alongside the career of the Spanish art critic D'Ors. On display are works by artists including Torres Garcia, Picasso, Dali, Mirs and Saura; to Sep 15

MUNICH

DANCE
Prinzregententheater
Tel: 49-89-4706270
● Bayerisches Staatsballett: in works by Peter Martins and van Manen; Jun 25, 26, 27, 28

NEW YORK

EXHIBITION
Whitney Museum of American Art Tel: 1-212-570-3600
● Keith Haring: major retrospective of work by the late American artist, who used early 1980s urban street culture as a starting point for his bold graphic style and attacks on a range of social issues, including racism, AIDS and the influence of the mass media. The display explores in some depth Haring's early works as a street artist and features more than 100 works, including some salvaged from New York City's subways; from Jun 26 to Sep 21

JAZZ
Avery Fisher Hall
Tel: 1-212-875 5030
● Herbie Hancock: performance by the keyboard player (part of the 1997 JVC New York Jazz Festival); Jun 25

Carnegie Hall
Tel: 1-212-247 7800
● Dianne Reevers: performance by the singer, accompanied by the Jacky Terrasson Trio (part of the 1997 JVC New York Jazz Festival); Jun 25

PARIS

EXHIBITION
Bibliotheque Nationale
Tel: 33-1-4703 8340
● Livres d'artistes: display of over 300 artists' books, including works by Baldessari, Broodthaers, Fulton, LeWitt, Nannucci, Roth, Ruscha and Wainer; to Oct 12

Musée d'Orsay
Tel: 33-1-4549 1111
● Emile Verhaeren: exhibition jointly organised by the Musée d'Orsay and the Musée de la Litérature de Bruxelles, examining the life and times of art critic Verhaeren. On display are a number of paintings, sculptures, drawings and engravings; to Jul 14

STRASBOURG

CONCERT
Palais de la Musique et des Congrès Tel: 33-388 37 67 67
● Ensemble Orchestral de Paris: with conductor Jean-Jacques Kantorow and violinist Patrice Fontanarosa in works by Mendelssohn, Landowski and Mozart; Jun 26

TORONTO

EXHIBITION
Art Gallery of Ontario
Tel: 1-416-979 6648
● Strangers in the Arctic: Ultima Thule and Modernity – exhibition featuring works by 14 artists who use their work to examine the unique natural conditions of the Arctic to examine intersections between history, nature and culture; from Jun 26 to Sep 1

VIENNA

EXHIBITION
Museum für Angewandte Kunst
Tel: 43-1-71136
● Brilliant Failure: exhibition dedicated to attempts by post-war Vienna architects to modernise Austrian styles of architecture, using plans, sketches, and models to document why so many of these attempts have failed; to Jul 6

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Martin Wolf

The price of elephants

A resumption of controlled ivory exports can benefit conservation by giving the poor people who live alongside the herds an incentive to preserve them

Last week in Harare, commonsense broke out over animal conservation. Parties to the Convention on Trade in Endangered Species (Cites) allowed Botswana, Namibia and Zimbabwe to resume controlled exports of ivory to Japan, from 1999. This decision marked recognition that African elephants are not now endangered. It also showed awareness that they will remain safe only if their existence is of benefit to people they live among.

The ban on the trade in ivory in 1989 was the culmination of an emotional campaign. Its chief protagonists were Mr Richard Leakey, then director of the Kenya Wildlife Service, and a number of western animal welfare and environmental groups. To achieve their end, the advocates had to represent the African elephant as an endangered species, even though there were at least 600,000. Sharp declines in elephant numbers had occurred in eastern Africa, where management had been incompetent, but not in southern Africa. In Zimbabwe, for example, the population has increased from 30,000 to 70,000 over the past two decades.

Countries that managed their elephants relatively well saw the trade ban as an unjustifiable restriction. It reduced the benefits of conserving elephants at the behest of people who did not have to bear the costs. But these countries were outvoted, principally by nations without elephants.

Now, parties to Cites have voted in favour of letting the three southern African countries export small quotas from existing stocks: 25.3 tonnes from Botswana, 13.8 tonnes from Namibia and 20 tonnes from Zimbabwe. This is a small proportion of an African stock in excess of 500 tonnes.

Behind the heated debate on whether or not to lift the ban lie differences not just over means, but also over ends. Western animal rights organisations wish not just to conserve elephants as a species, but to protect all elephants. Yet prosperous westerners are not threatened with starvation if an elephant should eat their food, or with death if an elephant should attack. As one expert has remarked, reality for the African peasant consists of the terror of being trampled by elephants, the hopelessness of watching a year's harvest destroyed and the helplessness of being unable to do anything about it.

Elephants killed at least 500 people in Zimbabwe between 1982 and 1989. The equivalent in France would have been 2,500 people; in the US 12,500. Each elephant eats about 330 pounds of food a day. A herd of elephants is like a swarm of six-ton locusts.

Since elephants both compete with people and threaten them, they will survive only if the value they create for those with the power to preserve or destroy them exceeds the costs they impose. This is not just the only workable approach to conservation. It is also the only one that recognises the moral claim of desperately poor people to a better life.

For western environmentalists, trade restrictions are the answer. They have the advantage of being cheap. But, as Mr Ike Sugg and Mr Urs Kreuter note in a pamphlet* for the London-based Institute of Economic Affairs, a ban on trade in elephant products can make elephants worthless, but cannot make them costless.

In the short run, however, the ban did reduce poaching in some African countries, notably Kenya, though not, it seems, in Botswana, Malawi, Namibia and Zimbabwe. The question is why it has had this beneficial impact and why there should be such a difference across countries.

Interestingly, as Mr Michael 't Sas-Rolfes argues**, a longer-standing ban on trade in rhino horn has been largely ineffective. The difference is that the ban on ivory was accompanied by a collapse in western demand, as ivory use turned people into social pariahs. But the demand for rhino horn comes largely from politically incorrect east Asia and the Yemen. The result of that ban has been soaring black market prices and a thriving illegal trade.

In countries with poor conservation efforts, the decline in ivory prices induced by falling demand reduced poaching. In countries with historically better efforts, the effect was ambiguous. While the incentive to poach was lowered, the elimination of the legal trade reduced the resources available for conservation.

What can be said for the ban on trade in ivory, therefore, is that the campaign was the catalyst for a sharp reduction in western demand. As such, the ban may be viewed as having provided short-term relief. But it also decreased the resources available to preserve elephants in protected areas, themselves only some 5 per cent of Africa's land area, and reduced the incentive to preserve elephants in unprotected ones.

Whatever the future development of trade in ivory, a longer-term solution is required to ensure the survival of elephants. There are two possibilities. One is central command and control. Resources available to government conservation departments and the penalties on those who kill elephants would both be increased. Combined with the reduction in the market value of ivory consequent on the decline in demand abroad, this might work. Under this model, westerners who want to preserve elephants would be under a moral obligation to defray the costs imposed on desperately poor countries. The proceeds of the carefully controlled ivory trade now being permitted could also help finance the effort.

The second alternative is to work with the market. Communities among which elephants live would be given a direct stake in their survival. The problem has been that impoverished farmers have normally had every incentive to kill elephants, but none to preserve them. Yet wealthy foreigners are prepared to pay for the privilege of seeing or shooting elephants. Others are prepared to buy ivory.

If the people among whom elephants live can benefit from any or all of these activities, looking after elephants will become a rewarding business. Even if it makes sense to let some elephants be killed, peasant communities would want to see herds survive. Instead of being rustlers, they would become ranchers.

This is precisely the approach adopted with substantial success by Zimbabwe. Today more than 500 of its nearly 4,000 farms derive all or part of their income from wildlife. In addition, through the Campfire programme, substantial sums are earned by local communities, largely through the sale of lucrative hunting licences. Because local people receive the gains, they have a corresponding incentive to preserve the elephants.

Animals that compete as vigorously with people as elephants will endure only if their human neighbours have an interest in ensuring they do. Eliminating trade in elephant products cannot reward those who bear the costs of keeping them alive.

The incentives can be negative – heavy penalties and a large protection force. Or they can be positive – rewards to people from conserving their elephants. The latter is not just more effective, but also more moral. If some of the world's poorest people are to tolerate some of the world's most destructive animals at the behest of rich westerners, they deserve a suitable reward.

**Elephants and Ivory: Lessons from the Trade Ban*, IEA Studies on the Environment 2, London, 1994. ***Does Cites work? Four Case Studies*, IEA environment briefing 4, London, 1997.

A network war turns nasty

Louise Kehoe on the clash between Microsoft and Oracle

Microsoft and Oracle are on a collision course. Today, when Oracle unveils a new version of its database management software as the centrepiece of a new model for corporate computing, the world's two biggest software companies will clash head-on.

The confrontation has been building for months as Microsoft, the undisputed leader in desktop computer software, took aim at Oracle's territory with its own database software and other "back office" applications.

For its part, Oracle has been promoting the Network Computer (NC), a low-cost desktop machine that relies for software and data upon a central server. Unlike almost all personal computers, the NC does not run Microsoft programs.

Mr Bill Gates of Microsoft and Mr Larry Ellison of Oracle, the rival multi-billionaires, have traded blows. Mr Gates has dismissed the NC as retrograde technology. "NC", he says, stands for "not compatible" with the huge base of software developed for the PC.

Mr Ellison has ridiculed the complexity of Microsoft's PC applications and accused the company of attempting to maintain a "monopoly" without regard for the needs of computer users.

Yet, until now, the battle has been largely confined to rhetoric. Microsoft and Oracle have coexisted in the software market with both companies benefiting hugely from the explosive growth of computer networks.

Now, however, Oracle will use the introduction of Oracle8, a new version of its database management software, to launch a direct assault on Microsoft. The product, Oracle executives claim, is the foundation for a new approach to building corporate information technology systems.

The "client-server" model of computing built on networks of PCs – which has prevailed for the past decade – is on the way out, Oracle says. Enter "network computing" in which software and data are shifted from the desktop to central, high-performance servers.

This will eliminate the struggle that many businesses face in keeping pace with rapid advances in PC technology and new versions of desktop software, Oracle argues. PCs will be replaced by simple NCs. Updating applications software will become as easy as swapping the version installed on a central server.

The transition to network computing will be "not so much a religious experience as an economic experience," says Mr Jerry Held, Oracle senior vice-president. It will, he says, lead to "dramatic cost savings", reducing the average annual costs of maintaining a desktop computer on a corporate network from about $10,000 to about $2,000.

But the Oracle approach is likely to mean higher spending on server software such as Oracle's database programs and applications. "Oracle is a server company," says Mr Ray Lane, Oracle president. To the extent that the server becomes the central element of corporate computing systems, Oracle will benefit, he acknowledges.

But where will Oracle8 fit in? "Database management is the boiler-room technology, the engine that powers network computing," says Mr Held. This new engine comes with the ability to organise huge, multi-terabyte stores of records. (A terabyte is one trillion characters, or approximately 500m pages of text). It can handle graphics and video.

The advantages of Oracle8 versus the current version of the database management system are "scalability and availability", adds Mr Lane. The program, he says, delivers the reliability of a traditional mainframe database on modern computers running the Unix or Microsoft NT operating systems.

Whether Oracle customers – who include many of the world's top banks, retailers and manufacturers – will also adopt the "network computing" approach remains to be seen. Oracle's economic arguments sound persuasive, but veteran information technology managers have heard such promises before.

The high cost of supporting thousands of PC users undermined the savings which businesses expected to achieve when they shifted from mainframe computing to distributed client-server networks in the 1980s. Could there be hidden expenses in network computing? "We will not know for a year," Mr Lane says.

In many ways, the clash between Oracle and Microsoft was inevitable. Already, Oracle has left its traditional database software competitors in the dust, achieving a more than 50 per cent world market share.

Informix and Sybase, two database software rivals, are struggling to regain momentum as they deal with product transition and other problems. IBM still has a strong presence in the market for mainframe database software but has not kept pace with Oracle's growth. This has left Microsoft as its only strong challenger.

Given the hubris of two of the world's richest men, this has the makings of a battle that could engulf the entire information technology industry. Backing the winner will be a challenge for computer and software companies worldwide – as well as for their customers.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London

Services gain little by technology

From Professor Leon Shilton.

Sir, Gerard Baker asks the question of why technology has not boosted overall productivity in the US ("Anatomy of a miracle", June 20). The answer is that a computer chip and a fancy software package do little in the people-intensive businesses of giving medicine, serving a hamburger or praising the Lord. Obviously, in the manufacturing sector computerisation and new equipment have increased productivity. The number of workers in the hard manufacturing industries (standard industrial classification groups 20 to 39) today is the same as it was in 1975 – 18.5m. But these workers are now producing twice as much product, $2,300bn (inflation adjusted).

Over the past 20 years, however, the biggest gain in US employment was in medically related services and nursing care services: 7m workers. (How does one measure the value added of extending a life five years?) Other large gainers were the restaurant business 4m, grocery stores 1.2m, state and local governments 1m, and religious organisations 850,000. The highly touted growth industry of computing services added only 800,000 workers over this time, while the number of people who make the hardware declined by 110,000.

While managers gloat that they have downsized, getting rid of all those fringe benefits, they forget to mention the increase in consulting services and temporary help. In 1975, the temporary worker was a nonentity; today there are 2m of them – the fourth largest employment growth sector in the US.

The article was just another in a series that questions the impact of technology on productivity. Another perspective on the impact of technology on the service industries is that the simple add and subtract infallibility of the spreadsheet and the spell-checking bird-dogging of the word processor prevented a very serious decline in business literacy and competency. So the test is not how much did technology add to productivity in the service industries but how much of a decline did it prevent as the American educational process withered.

Leon Shilton,
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Investment should be the real concern

From Mr Bernard Kilroy.

Sir, The "black hole" in UK government finance following the National Audit Office adjustments is a distraction ("Chancellor lifts expectations of higher taxation", June 20). The real concern should be that the chancellor has left the crude concept of the public sector borrowing requirement in place. No distinction is being made between capital investment and current spending, to the detriment of the renewal of the UK's infrastructure and job creation.

Why? Labour's manifesto commitment to confine its borrowing to capital investment surely implies a different approach. So does a positive European policy. Under the Maastricht convergence criteria, the GGFD (general government financial deficit) replaces PSBR. Far from producing a deficit, that would allow capital investment spending to be maintained, and indeed increased. Ironically, the Conservatives' 1996 Budget Red Book was explicit about restoring capital spending to pre-1979 levels by means of the private finance initiative and partnership funding. Somehow, the perspective seems to have been lost.

The longer the new Labour government leaves any change, the more it will be accused of cooking the books. Much of the groundwork was done in the 1970s when some of us persuaded the House of Commons environment committee to propose a new format for the then largest capital programme, housing. Meanwhile, both the Treasury and the Bank of England had carried out valuable studies which focused on the economic evaluation of spending programmes rather than the more headline grabbing financial preoccupations.

So, what has happened now? New Labour, old budgeting?

Bernard Kilroy,
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Child labour issues denied a forum

From Mr Denis MacShane MP.

Sir, Those supporting the view that child labour and related social issues should not be discussed at the World Trade Organisation have always argued that the International Labour Organisation is the appropriate forum for such matters. However, we now read ("ILO chief comes under fire", June 12) that Asian, Latin American and African states have rejected the limited proposals from the ILO to monitor social progress around the world.

If the growth in child labour, poverty wages and environmental hazards must not be raised at the WTO and cannot be examined by the ILO, does not that mean these problems (which are stoking protectionist politics around the world) cease to exist?

Denis MacShane,
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Options to privatise left open by Jospin

From Ms Marie Owens Thomsen.

Sir, It is possible that I have become "too French" working for Dresdner Kleinwort Benson in Paris, and that this has rendered me sensitive to what might be perceived as "Anglo-Saxon propaganda". But I do find it shocking that your Paris office reports that "Mr Jospin said the new administration would not implement the previous centre-right government's plans to privatise France Telecom, the Thomson-CSF defence electronics company and the Aerospatiale aviation and defence group" ("France will join Emu on time, says Jospin", June 20).

Mr Jospin said nothing of the sort. While declaring that the new government is in principle opposed to privatisations and ruling out any privatisation of public services he left his options open regarding state companies exposed to international competition. Hence, if any opening up of French state companies' capital will take place under the new government it is precisely the companies mentioned in your article that would be concerned.

To be sure the new government is not likely to raise as much money from privatisations as the previous government had budgeted. This is therefore the issue that remains the most threatening to the French deficit to gross domestic product ratio in the wake of a policy declaration that was otherwise of little consequence to the 1997 budget. But the real risk is not nearly as great to the deficit or to the stock market as your article would suggest.

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COMMENT & ANALYSIS

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Revisiting the Rio pact

The second UN Earth Summit, taking place in New York this week, was never going to be a happy event. The conference was intended to assess the progress made since the first such conference in 1992 in Rio. In truth, little has been achieved in the intervening five years.

None of the commitments made at Rio – the grand Agenda 21 – has been kept. Five years ago the world's leaders agreed to cut carbon dioxide emissions to the 1990 level by the year 2000. Today they are higher than ever. Pledges to protect the world's forests and oceans have not been honoured, nor commitments to manage water resources and bio-diversity. The rich conntries agreed to increase aid for sustainable development to 0.7 per cent of GDP in 1992: instead, total aid has fallen.

The mood of ths conference is not improved by the failure at the Denver summit to agree to a target to reduce carbon dioxide emissions. The European representatives wanted the US and Japan to agree to the European Union target of cutting carbon dioxide emissions to 15 per cent below the 1990 lsvel by 2010. The US and Japan refused.

The debate over emissions in the richest countries misses the most important issue. The pace of growth in developing countries – in particular in China and India – means that agreements to restrict energy use in the G7 cluh are largely of symbolic importance. Even if the industrialised countries were to cap their own energy use at current levels, they could not limit the use of energy in developing countries.

This is not a problem for ths distant future. By 2005 China is set to overtake the US as the world's biggest prodncer of greenhouse gases. The prospect of a fridge in every home in China, and an air-conditioner in every home in India, makes the disagreement between the EU and the US over the timing of targets for their own energy reductions littls more than a sideshow.

Any solution must agree on soms allocation of the costs of reducing greenhouse gases. in practice, the burden of such a scheme must fall largely on the north. The richer countries are unlikely to agree to that. But much can still be achieved. A commitment to end energy subsidies would be a start. So would help to promote more efficient energy use in the developing world. The developed countries should redouble efforts to promote cleaner technology, in power generation and use.

This is a less ambitious agenda than that set in Rio, or under discussion this week. But it may be the best that can be hoped for.

Kashmir hope

The agreement by India and Pakistan on an agenda and a structure for peace talks, including their bitter dispnte over Kashmir, is greatly to be welcomed. It is an appropriate sign of reconciliation only weeks before the 50th anniversary of their independance, and the bloody partition which accompanied it. But it is only a first step towards a solution to their long-running conflict. Both sides still have to make significant concessions for any hope of a lasting peace.

The advantages of a reduction in tension in the region are beyond question. It would allow both countries to rein back on defence spending, which is running at a level neither can afford. The economic pressure is most ohvious in Pakistan, where the government is all but bankrupt. But the Indian military is also sorely stretched on its north-west frontier, forced to operate with too many men and inadequate equipment.

More important still, an agreement would enable the two sides to revive normal trade relations, to their great mutual advantage. That would give Pakistan access to cheap raw materials, and India a new market for its manufacturing industry. in the long run, it would open up new trade routes and oil and gas pipelines to the future energy fields of central Asia. And it would allow freer movement of people across their border, re-uniting families divided by partition.

The progress that has been made so far owes much to the better atmosphere promoted by the two prime ministers, Mr I.K. Gujral of India and Mr Nawaz Sharif of Pakistan. They can understand each other, as both were forced to emigrate in opposite directions around the time of independence. But they must now give substance to the structure they have set up.

That is certainly easier said than done. Neither side is yet ready to make concessions acceptable to the other, neither on Kashmir nor on the deployment of ballistic missiles nor on their other border dispntes. Both face strong political pressures not to give ground – in Pakistan from tha Islamic opposition, and in India from the Hindu nationalist Bharatiya Janata party. Mr Sharif is hostage to a collapsed economy, and Mr Gujral to a highly complex coalition government.

They should proceed by setting modest objectives for their negotiators, to get the process in motion. Confidence-building measures should be found in trade relations and border controls, to gain momentum. The security questions, and above all the status of Kashmir, will be the toughest to resolve. But at least they are moving in the right direction.

The UK Budget

Mr Gordon Brown's first Budget, to be delivered on July 2, will reveal much about how Labour intends to manage the economy. It was billed as a simple performance, aimed at putting into effect Labour's windfall tax on ths privatised utilities and tha welfare-to-work programme it is to finance. But what Mr Brown says will suggest answers to four bigger questions.

First, the actions of the chancellor of the exchequer will cast light on his longer-term attitude towards fiscal reform. He has already commissioned Mr Martin Taylor, chief executive of Barclays, to investigate the relationship between benefits end taxes. But he should set out his wider agenda for reform. More important, he needs to avoid making changes that would compromise reform later on.

Second, the accompanying Budget documents will reveal Labour's plans for public spending. The Conservative government's intention was to take general government spending (excluding privatisation proceeds) down from 40 per cent of gross domestic product this year to 36½ per cent by 2001-02, the lowest ratio since 1965-66. The public sector borrowing requirement is also forecast to be a surplus of 2 per cent of GDP by then. If Labour does not push the spending ratio down, the PSBR would show a deficit of over 1 per cent of GDP in 2001-02, a level it has claimed is too high. Mr Brown can avoid raising taxes only by tight control of spending or abandoning his PSBR objectives.

Third, the budget will indicate how far Mr Brown is constrained by promises on personal taxation made during the election campaign. If the government is not even prepared to sliminate mortgage intsrest relief, as is now believed, the chancellor will have to focus almost all his attention, both now and in future, on the taxation of companies. The questions he will then have to answer is how he can load more taxes on companies without adversely affecting investment and how he can attack the tax benefits of saving without undermining people's ability to make long-term plans.

Finally, the budget is the chancellor's opportunity to indicate how far he atill takes responsibility for macroeconomic management, even after the decision to give the Bank of England operational independence. The case for significant fiscal tightening for both structural and conjunctural reasons is strong. If Mr Brown still does nothing, he will, by default, be passing more of the burden of macroeconomic management on to the Bank.

No budget is trivial, least of all the first from a party elected after so long in opposition. Mr Brown's first Budget will set the stage on which this government will play for years to come.

Giant waiting in the wings

Bernard Gray and **Michael Skapinker** ask if Europe's aerospace industry can consolidate in time to challenge US dominance

There was a pregnant air about the Paris Air Show last week. The world's aerospace executives waited anxiously through long sticky days at Le Bourget to hear what Mr Lionsl Jospin, ths new French prime minister, would say about his plans for France's defence and aerospace industry.

Mr Jospin was the centre of attention because France is seen by many as the key to unlocking rationalisation of the European industry. The speculation in the company chalets centred on whether Mr Jospin would turn the lock by approving the privatisation of the industry, or leavs the door holted by keeping French companies in state hands.

The choice facing Mr Jospin has profound implications for the whole of the European industry. France's large industrial partners in the Airhus consortium, Daimler-Benz Aerospace (Dasa) and British Aerospace, have made no secret of their desire to see the French industry privatised and integrated into the rest of the European sector. Mr Serge Dassault, the chairman of France's private-sector military aircraft maker Dassault, has similarly firm views.

Yet in their pre-election rhetoric, Mr Jospin and his new government were strongly opposed to privatisation. In the particular case of the aerospace industry, this put Mr Jospin in something of a bind. If bs follows his instincts he risks alienating the rest of the European industry, but if he bows to the views of the industry outside France, he may face a domestic backlash.

In the event, Mr Jospin, who spoke at the show on Saturday, avoided the privatisation issue altogether – a sign of how ticklish the problem is for the government. This followed his address to tha National Assembly last week in which he had said he would not implement the previous conservative government's pledge to privatise Aerospatiale – although he accepted that some "adaptations" might be necessary to enable the group to co-operate with its European partners.

While prevarication may buy a little time, the basic dilemma for France will not go away: either it moves forward with privatisation and rationalisation or, as his European partners were hinting darkly last week, tha rest of the industry will come under increasing commercial pressure to move ahead without tha French.

Ironically, the defining moment for the show occurred a littls earlier in the week, when BAe signed an agreement with Lockheed Martin to work together on the $100bn (£60bn) US Joint Strike Fighter programme. As well as being a substantial deal, this revealed the outline of a potential transatlantic alliance that could emerge to rival Boeing in the global aerospace industry.

Assuming that the merger of Boeing and McDonnell Douglas receives regulatory approval during the summer, the merged company will have a pre-eminent position in the world defence and civil aerospace market. Boeing's turnover will be about $48hn, roughly twice that of its nearest rival Lockheed, which is heavily focused in military equipment.

The emergence of the Boeing leviathan is increasing pressure for consolidation of the fractured European industry, and is one reason why privately owned BAe and Dasa are keen to push ahead with the rationalisation of tha European industry.

Both Mr John Weston, joint managing director of BAe, and Mr Manfred Bischoff, chief executive of Dasa, are keen to see Europe respond to the Boeing challenge by forming a single transnational aerospace group, covering civil aircraft, defence, missiles end space.

Once that European aerospace company had been formed, it would naturally start to look across the Atlantic for potential allies. But choices are limited. Boeing is Airbus's deadly rival and can effectively be counted out. Raytheon, the defence electronics group, is not in the military jet or airliner business, and Northrop Grumman has become a niche defence specialist.

That leaves Lockheed, which lacks a civil aerospace business, as the only large potential US partner. This fact must have been on the mind of Sir Richard Evans, BAe's chief executive, wben he selected Lockheed as partner for the Joint Striks Fighter. Lockheed is also concerned at the scale of Boeing's operations, and is likely to be looking to deepen its international links as a response in coming years.

Given how fast the US industry has already moved, BAe would like to move swiftly down the road towards a consolidated European grouping, as a precursor to a global company. For BAe, that consolidation starts naturally with Dasa and Aerospatiale of France – if it were to be privatised. Such a merged group could then bring in other companies such as Casa of Spain, Alenia of Italy and Saah of Sweden.

However, until recently Dasa – mindful of the strong Franco-German relationship – has wanted to move more slowly, allowing time for France to privatise and rationalise its businesses. Yet, if French delay continues, the main board of Daimler-Benz may press for action.

The UK and German partners also have some differences over how quickly Europe's defence companies can be consolidated. Mr Bischoff fears this might take longer than the rationalisation of the civil aircraft business because of the insistence by European governments on retaining control of their defence policies and of weapons procurement.

But the division of opinion between UK and German executives over the pace of rationalisation is not a complete barrier to progress. Both sides believe the first step towards consolidating ths European industry is the reform of Airbus: a restructured Airbus could then be the basis for more widespread consolidation.

If Airbus is to compete against a merged Boeing-McDonnell Douglas, its executives recognise that they will have to drive down costs, shorten the time it takes to bring its aircraft to market and be in a position to respond to airline needs more quickly. The four companies which own Airbus – Dasa, Aerospatials, BAs and Casa – agreed this year that tbese changes could only be achieved through a change in the consortium's legal structure.

The four partners signed a memorandum of understanding in January, agreeing to convert Airbus from a loose confederation into a limited company.

Yet while the partners have agreed to change their structure, they disagree on how to do it. BAe, which owns 20 per cent of Airbus, and Dasa, which has 37.9 per cent, have lined up on one side of the argument; Aerospatiale, with 37.9 per cent, and Casa, which has 4.2 per cent, are on the other.

The dispute is over who should own the partners' Airbus factories. BAe and Dasa believe the new Airbus company should own them. Aerospatiale and Casa want the partners to retain them.

The four are edging towards a compromise: the partners will continue to own the factories but the new Airbus will manage them. BAe and Dasa say they will only accept this as an interim solution: eventually Airbus must take over ownership too. Mr Bischoff says tbat, even during the interim stage, employees in the factories must have no doubt that their bosses will be the Airhus management in Toulouse, not the partner company executives.

Aerospatiale has spoken hopefully of a matrix management structure, under which factory workers will report both to Airbus and to their own national companies. Mr Bischoff says he will have nothing to do with such a compromise.

Underlying the factory ownership dispute, the partners recognise, lies a deeper difference, which goes to the heart of Mr Jospin's problem: BAe and Dasa are privately owned companies, while Aerospatiale and Casa are state owned.

As long as that distinction exists, the two sides both accept that they will see the world differently. BAe and Dasa focus on how to cut costs; Aerospatiale and Casa concentrate on how to preserve national assets – in this case, high-technology aircraft factories.

The other Airbus partners are unliksly to make much more progress with a state-owned Aerospatiale. Failure to privatise Aerospatiale will also hold up consolidation of the French industry. The previous government had pushed for Aerospatiale to merge with Dassault Aviation, but Mr Dassault said last week that he would not merge with a state-controlled company.

Until the French government can bring itself to renege on its pledge not to privatise Aerospatiale, further reform of Airbus is likely to proceed slowly. This is hound to slow and alter the course of the consolidation of the wider European aerospace and defence industry which depends on it.

What worries the private sector companies is that continued delay will simply add to the US's advantages in the international marketplace. BAe and Dasa executives are beginning to worry how much of the market will be left to the Europeans by the time they sort out their husiness.

For Mr Jospin, the choice is painfully clear. Either he stays with a state-owned French aerospace sector which risks becoming increasingly isolated, or he goes with the British and Germans on the road to a private-sector international group. The latter would not be controlled by any one country and might eventually evolve into a global aerospace giant. It is a choice that the market and his partners, driven by shareholder concerns, will not allow him to delay for long.

· OBSERVER ·

Amsterdam indigestion

■ Jacques Delors has touched a raw nerve in Brussels with his weekend outburst that the European Union's Amsterdam summit was a "flop" and a "fiasco". Many Eurocrats would agree, but the official line remains that there is more to the new treaty of Amsterdam than meets the eye; that's certainly the message being peddled by Jacques Santer, Delors' successor as president of the European Commission.

Santer was incorrigibly upbeat throughout the two-day horse-trading session in Amsterdam. When the meeting broke up in acrimony in the early hours of Wednesday morning, Santer proclaimed that Europe had moved into a new phase. At this weekend's G8 summit in Denver, Santer assured his American audience that the EU had been propelled towards enlargement in central and eastern Europe.

All this Euro-optimism was too much for Delors to stomach. In a radio interview he declared that he'd been shocked by German "arrogance" in Amsterdam and accused the Bonn government of having an "allergy" toward Italy and Spain, which are desperate to join economic and monetary union in 1999. For good measure, he blamed France's President Jacques Chirac for not standing up to the Germans.

Tear-jerker

■ Trouble has taken root in the Indian state of Maharashtra after a militant farmers' union offered 1,000 rupees to anyone who can knock out a minister with an onion. Two state government ministers were attacked with vegetables this weekend; farmers protesting about declining profits also pelted buses and broke windows. Less mouth-watering sums are on offer for onion attacks on other government officials.

Aussie rules

■ Russell Goward was never in the first rank of boom-to-bust Australian financiers, but in the 1980s he played a good second fiddle to the likes of Alan Bond. So it's no surprise to find him in hot water; yesterday Goward appeared in court in New South Wales, charged with breaching bail conditions. He was arrested on a farm owned by the Hare Krishna sect after three months on the run.

Still only 43, Goward cut his commercial teeth at Hill Samuel and ran Industrial Equity Group for Sir Ron Brierley before leaving to do his own thing with investment companies Westmex and, in the UK, Charterhall.

But the going's been tough since Westmex collapsed in 1990: Goward was declared bankrupt the following year and already faces charges of concealing assets from his creditors and two counts of perjury.

The latest chapter in Goward's story started back in March when he disappeared from Sydney home, apparently after an argument with his wife. Let's hope she likes the long hair and beard he's now sporting, a far cry from the clean-cut image of 10 years ago.

Rubber sole

■ More kicking and screaming from former Philippine first lady Imelda Marcos over her $887m tax bill. Yesterday, la Marcos delivered a personal petition to the Supreme Court in Manila; she's described as "whimsical and dictatorial" a lower court decision to uphold the bill and seize 11 plots of family land in partial payment.

"All our personal belongings have been taken from us. What is there to tax?" she sniffily told reporters. But sympathisers for the grande dame of Manila society are thin on the ground. It's only four years since Imelda was convicted of corruption and sentenced to 18 years in jail – though that didn't stop her going on to become a congresswoman in the House of Representatives.

Many doubt her poverty, too, despite her recent claim to be the poorest member of the house with a negative net worth of $1.1m. The government reckons the Marcos family plundered about $5bn from the economy during two decades in office.

Single digit

■ It's always good to see adversaries bury the hatchet, especially when the two sides have spent the best part of a year engaged in mutual bad-mouthing and expensive litigation. But there's something eerily familiar about yesterday's agreement between Kirch and Bertelsmann to develop digital pay-TV in Germany.

The companies say they will pool their talents in marketing, programme rights and so on, while on the technical side Deutsche Telekom will look after all the bits and bytes. In other words, it looks remarkably similar to the two previous attempts to get digital pay-TV off the ground. The first was blocked by Brussels on competition grounds, the second was scuppered by Leo Kirch's ambitions to go it alone. Now what's that saying about third time lucky?

Financial Times

100 years ago

Competition In Trade
Throughout the world, and in the United Kingdom itself, British manufacturers are feeling the stress of the competition of goods made on the Continent of Europe. Our Consuls are incessantly drawing attention to this fact, and throwing out hints as to how such competition may best be met. There are complaints as to the price of British goods, the inhabitants of some countries having a strong predilection for the cheap and nasty. Then there is the constantly recurring complaint about the scarcity of British commercial travellers as compared with other nationalities. There is another complaint that the British commercial travellers who do go round do not make themselves conversant with the manners, language and requirements of the people with whom they have to do business.

50 years ago

Mexican Silver For Coinage
New York, 23rd June. It is understood that the Mexican Government is planning to purchase silver for coinage purposes. Reports received in the U.S. silver trade from Mexico City state that arrangements are being completed for the Mexican Government to purchase from Mexican producers.

FINANCIAL TIMES
Tuesday June 24 1997

Alphatec chief faces pressure to resign

Debt problems mount for chipmaker

By Ted Bardacke in Bangkok

Creditors of Alphatec Electronics, the troubled Thai computer chip maker, are expected to demand the resignation of Mr Charn Uswachoke as chief executive before they agree to give the company time to restructure its overdue debts.

The resignation could come today after Alphatec, which accounts for nearly 1 per cent of Thailand's total exports, missed a $45m payment due yesterday on a euroconvertible bond issue. Last month Alphatec missed repaying $34m to an international syndicate led by ING Bank.

The company has faced a liquidity squeeze since early May when Texas Instruments pulled out of projects with its parent, Alphatec Group, worth $1.4bn to establish electronics plants in Thailand.

So far creditors have decided not to call a default, which would trigger cross-default provisions on $450m in total debt.

Mr Charn was recently accused by the Thai cabinet, which is considering taking an equity stake in the company, of "unprudential management on finance". Mr Leslie Merszei, the newly appointed chief financial officer of Alphatec Group and the man leading the debt restructuring negotiations, is being asked to remain in his post, as are senior executives on the operations side of the business.

Bankers Trust, which is representing holders of the eurobonds, must be convinced within 15 days that the company is "acting in good faith" to restructure its finances. It can then forestall an automatic default by calling a bondholders' meeting within 60 days to hear details of Alphatec's restructuring plan.

Alphatec Electronics is in a strong negotiating position with its creditors due to Thailand's antiquated bankruptcy and asset foreclosure laws.

"We have various realistic restructuring scenarios whereby investors can get all their money back in due course," said Mr Merszei. "If creditors want to call a default and take legal action they are simply going to make all the Thai lawyers very rich and it won't help them get their money back."

But bankers say they cannot wait too long. Creditors worry that the company's customers will seek their computer chips elsewhere. There are also worries that an individual bank within the ING syndicate will call a default on its own.

The departure of Mr Charn would make it more politically palatable for the government to take a stake in the company and would pave the way for a new private sector partner.

Mr Merszei said an injection of fresh equity from either the government or private sector is essential for the restructuring plan to succeed.

German digital pay-TV rivals announce joint deal

By Frederick Studemann in Munich

The battle to control digital pay-television in Germany appeared close to a truce yesterday as KirchGroup and rival media company, CLT-Ufa, announced a compromise deal.

The two companies, which have spent more than a year fighting, said they had agreed to work together to develop digital pay-TV around Premiere, a subscription channel in which both are shareholders but where CLT-Ufa has management control.

The deal, which is subject to regulatory approval, is a welcome respite for Kirch, which has been the subject of intense speculation over its financial health. Last year, the privately-held company spent heavily on a series of deals with Hollywood studios for the pay-TV rights to films and other programmes. These deals scuppered plans by CLT-Ufa, which is half-owned by the Bertelsmann media group, to launch a digital pay-TV network.

But they failed to give DF-1, the loss-making digital pay-TV network launched last year by Kirch, the intended boost. DF-1 has only 30,000 subscribers, a fraction of the number forecast in its business plan.

The development of DF-1 was also hampered by the refusal of Deutsche Telekom, which owns most of Germany's cable network, to allow it to be carried on cable.

The companies have also agreed on Kirch's "d-box" decoder as the uniform technology for the unscrambling of digitally-transmitted signals.

Kirch holds a 25 per cent stake in Premiere, while CLT-Ufa, has a 37.5 per cent share. The remaining 37.5 per cent is held by Canal Plus of France. Under the terms of yesterday's deal, the French group would sell its share to give Kirch and CLT-Ufa 50 per cent each.

German cartel authorities warned that increased co-operation between the country's only two vendors in the market could pose problems: "It could cement market relationships and make access difficult for other vendors."

Yesterday's agreement coincided with the pricing of a 17.5m-share initial public offering by Pro Sieben, a free TV network controlled by Mr Thomas Kirch, son of the founder and owner of Kirch Group. At a price of DM66-DM72 a share, the issue could raise more DM1.2bn ($690m). Most of this will go to Mr Thomas Kirch, who will continue to own 60 per cent of the voting stock.

See Lex

UN hears third world warning over green targets

By Michael Littlejohns and Bruce Clark at the United Nations, New York

The failure of industrialised countries to meet their commitment to help developing nations improve the global environment is threatening to block agreement on new United Nations environmental targets.

A special UN session in New York began yesterday with the aim of adopting a political declaration on Friday renewing countries' commitment to goals set at the Rio de Janeiro Earth Summit five years ago.

But there were fears yesterday that many developing countries would not sign the declaration without firm assurances of stronger financial aid.

Mr Robert Mugabe, president of Zimbabwe, told the special session: "The international community seems to remember the existence of Africa only when disaster strikes the continent." If financial resources were forthcoming, Africa would refrain from killing wild animals for food, cutting down trees for energy and polluting water resources because of lack of technology.

Among key issues that ministers and top officials from 185 nations will try to resolve at this week's review of the Earth Summit is the disagreement over plans to reduce "greenhouse gas" emissions by 7.5 per cent by 2005 and 15 per cent by 2010.

Addressing yesterday's session, Mr Tony Blair, the UK prime minister, said Britain was ready to aim for a 20 per cent cut in the 1990 level of emissions by 2010. But at the Denver summit over the weekend, he and other European leaders failed to persuade the US and Japan to agree to a 15 per cent target.

In a clear reference to the US, Mr Blair told the UN: "The biggest responsibility falls on the countries with the biggest emissions."

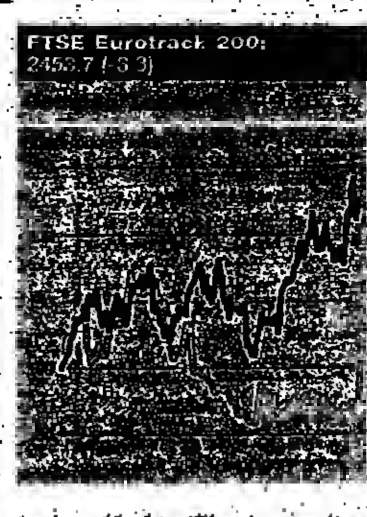
Welcoming delegates on behalf of the host country, Mr Al Gore, the US vice-president, said a conference on global warming in Kyoto, Japan, in December would be a "critical opportunity" to forge binding limits on gas emissions but with "flexibility in meeting these targets". Flexibility could include the right to defer meeting targets, or the adoption of a system of emission "quotas" – suggested by the US – which could be traded between companies and countries.

Tougher emissions 'will hit costs', Page 2;
Progress in arms talks, Page 10
Editorial comment, Page 19

THE LEX COLUMN

Computer compact

At first sight, Compaq Computer's decision to snap up Tandem Computers looks odd. Compaq is a world leader in personal computers, while Tandem's very different strength is in big fault-tolerant systems which handle, for instance, 80 per cent of the world's automatic teller machine transactions. So why combine them? Well, the companies do have something in common: big business customers. And from this perspective the deal has a certain logic. It equips Compaq with a far larger sales force. And in theory at least, Compaq gains the opportunity to sell a much broader range of products to the two companies' customers.



That is just as well – Compaq shareholders are paying a thumping price. Allowing for the slight drop in Compaq's stock price yesterday, the premium for Tandem stockholders of Compaq's all-stock offer works out at nearly 50 per cent. The idea of selling a wider product line-up through an expanded sales network may look terrific on an investment banker's drawing-board but could prove tricky in practice. Not only are the products different, but so are the skills required to sell them. There is an obvious danger: that in its rush to become "one of the three global computer companies" Compaq is taking a rather breezy attitude to the risks.

German TV

After a year of vitriol and litigation, Bertelsmann and Kirch, Germany's two leading media empires, are friends again; yesterday they teamed up to develop digital pay-television in Germany. The agreement is a victory for Bertelsmann. The chosen vehicle is Premiere, a subscription channel in which both groups have a stake but Bertelsmann's CLT-Ufa arm holds management control. Kirch's wholly-owned, loss-making DF1 digital channel looks like being sidelined. And while Premiere will use Kirch's "d-box" decoder, Kirch will not control the technology – in contrast with Mr Rupert Murdoch's News Corporation, which has hung on to the clever bits of BSkyB's decoders in the UK.

For Kirch this amounts to a humiliating climb-down. Mr Leo Kirch, its founder, has been adamant that the group had the resources to go it alone in digital pay-TV. But if recent revelations about Kirch's financial position are only half right, it is not surprising he is suddenly willing to rope in a partner with deep pockets.

Of course, this is by no means a done deal. Previous alliances between Kirch and Bertelsmann have collapsed in acrimony. It has yet to pass regulatory scrutiny. Canal Plus, the third shareholder in Premiere, is happy to sell out, but wants Kirch's stake in Italy's Telepiù pay-TV channel in return. And to ensure optimum distribution, Kirch and Bertelsmann will have to coax Deutsche Telekom, owner of Germany's biggest cable TV network, into the fold.

BAT Industries

The prospect of a US tobacco settlement has helped BAT Industries shares generate a total return of 21 per cent this year, even after yesterday's fall. A settlement could add well over £2bn to the market value of its tobacco business. But it would leave a significant strategic issue unanswered – the fate of BAT Financial Services (BATFS). And a settlement must allay any concerns that US litigants could prevent a demerger.

The combination of tobacco and financial services is impossible to justify and bound to earn BAT a continuing discount rating. BATFS has a break-up value of close to £12bn excluding debt, so it does not lack size. But it has failed to do the big strategic deals to give it greater clout in its UK life assurance and insurance businesses, and has been slow to integrate them. Freeing up BATFS would focus executive minds and make it easier to attract staff and issue paper for deals.

The question is therefore whether it should be demerged immediately, or after BAT has had one last attempt at a financial services deal. Prices are getting too high for hostile bids. But a merger bringing management strength to BAT's poorly-performing insurance business, along with critical mass and cost savings, must be attractive. Commercial Union or General Accident would fit the bill. This would also prevent someone snapping up BATFS on the cheap. But if a merger cannot be done, it is no excuse for procrastinating within the current corporate structure.

NatWest

The latest National Westminster Bank speculation – that Barclays is mulling a bid – may be wide of the mark. Monopoly considerations would almost certainly rule it out. But NatWest is definitely in play and the profits from acquiring it are potentially mouth-watering.

A chunky source of profit would be cost savings. Their size would depend on the extent of the overlap between the bidder's network and NatWest's. Analysts think Barclays, with a near carbon copy network, could strip out £1bn a year after-tax. The cost savings from a more monopoly-friendly bidder like Abbey National would not be as large, but could still amount to £300m-400m a year. Capitalised at a multiple of 10, that amounts to £3bn-£4bn of value.

Another source of profit is NatWest's break-up potential. Lombard, Ulster Bank and Coutts are probably worth £4bn – maybe more if sold to trade buyers. Parts of NatWest Markets, the troubled investment bank, could also be sold: the fund management business might fetch £1bn; the UK equity business and Greenwich bond trading operations might be worth another £1bn. NatWest Markets' treasury operations could be reunited with the core UK retail bank while its other operations, at worst, could be closed down allowing some £2bn of capital to be extracted. The break-up value is perhaps £3bn more than NatWest's current market capitalisation.

Moreover, so low is NatWest's credibility that a bidder might keep the lion's share of the profits. It might even be able to get away with a no-premium all-share takeover. NatWest management would not be well-placed to resist.

Additional Lex note on W H Smith, Page 26

Kashmir

Continued from Page 1

they have squared the circle. Neither side is really in a position to offer what is acceptable to the other."

Western diplomats said the deal agreement represented a step forward.

"The agreement is only the beginning of something important. Much will depend on domestic pressures too." said one diplomat.

China wins HK concession

Continued from Page 1

reached agreement on the 200-member advance team, appears to have been prompted by the attendance of senior officials at the handover.

China announced this month that its delegation would be headed by President Jiang Zemin and Mr Li Peng, the prime minister. The decision to demand early entry for further troops is understood to have come from the top level in Beijing.

The accord came under fire from pro-democracy politicians in the territory. "It is very provocative of China to demand this," said Ms Emily Lau, an independent legislator. "Britain lost its nerve." While Hong Kong people were unlikely to be alarmed by the early arrival of troops, they would see Beijing's pressure as unreasonable.

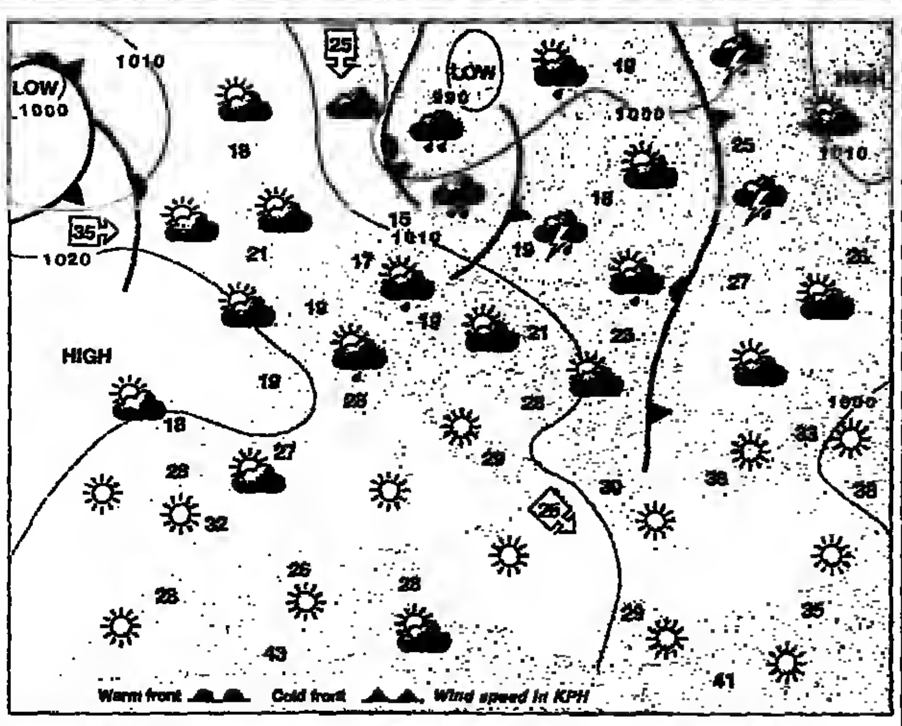
FT WEATHER GUIDE

Europe today

Showers are expected in the Benelux and Germany. Northern Germany and Denmark will be cloudy with rain. France will have a mixture of sun and cloud but the east will see some showers. The Mediterranean coast will be mainly sunny. Sunshine will mix with cloud over northern Spain. Southern Portugal will be sunny. The Alps will have rain and thunder showers. Northern Italy may have thunder showers but the south will be sunny. The eastern Balkans will be rainy but Greece will be sunny.

Five-day forecast

Rain, showers and wind are expected for north-western Europe as a disturbance approaches from the Atlantic. Conditions over Scandinavia will gradually improve during the course of the week. Weak high pressure will keep the Mediterranean region sunny and dry. Low pressure will trigger showers across Turkey.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius
Abu Dhabi	sun 40
Accra	cloudy 29
Algiers	sun 25
Amsterdam	fair 17
Athens	sun 34
Atlanta	thund 31
B. Aires	sun 15
B.ham	sun 19
Bangkok	thund 37
Barcelona	fair 23
Beijing	sun 36
Belfast	shower 17
Belgrade	fair 24
Berlin	shower 16
Bermuda	fair 28
Bogota	thund 19
Bombay	shower 31
Brussels	fair 17
Budapest	fair 22
C.hagen	drzzl 16
Cairo	sun 35
Cape Town	windy 18
Caracas	thund 31
Cardiff	sun 19
Casablanca	fair 23
Chicago	fair 32
Cologne	cloudy 17
Dakar	fair 30
Dallas	fair 35
Delhi	fair 36
Dubai	sun 40
Dublin	fair 18
Dubrovnik	sun 26
Edinburgh	fair 17
Faro	sun 28
Frankfurt	fair 18
Geneva	thund 20
Gibraltar	sun 24
Glasgow	fair 18
Hamburg	shower 15
Helsinki	fair 20
Hong Kong	thund 32
Honolulu	fair 31
Istanbul	sun 32
Jakarta	fair 32
Jersey	fair 18
Karachi	cloudy 37
Kuwait	sun 45
L. Angeles	sun 23
Las Palmas	fair 25
Lima	fair 26
Lisbon	sun 28
London	fair 21
Lux.bourg	fair 16
Lyon	shower 21
Madeira	cloudy 22
Madrid	sun 30
Majorca	sun 28
Malta	sun 27
Manchester	sun 19
Manila	thund 35
Melbourne	shower 14
Mexico City	thund 28
Miami	thund 33
Milan	sun 22
Montreal	fair 27
Moscow	thund 25
Munich	shower 20
Nairobi	fair 24
Naples	sun 25
Nassau	fair 31
New York	fair 32
Nice	sun 26
Nicosia	sun 31
Oslo	cloudy 19
Paris	cloudy 19
Perth	sun 20
Prague	shower 17
Rangoon	shower 31
Reykjavik	cloudy 13
Rio	sun 30
Rome	fair 27
S. Frsco	sun 25
Seoul	sun 32
Singapore	fair 32
Stockholm	shower 18
Strasbourg	shower 19
Sydney	fair 19
Tangier	sun 25
Tel Aviv	sun 33
Tokyo	fair 27
Toronto	fair 31
Vancouver	fair 19
Venice	fair 23
Vienna	cloudy 20
Warsaw	thund 18
Washington	fair 33
Wellington	shower 10
Winnipeg	fair 24
Zurich	shower 17

FINANCIAL TIMES
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Week 26

IN BRIEF

Cisco and Alcatel in internet link

Two of the world's biggest makers of telecommunications equipment – Cisco Systems of the US and Alcatel Althsom of France – have announced a partnership to capitalise on the convergence of the internet and telephone networks. Page 22

Sita pays $112m for waste business
Waste Management International, the US-controlled waste disposal group, has sold the bulk of its French operations for FFr651.3m ($111.9m). Sita, a subsidiary of Lyonnaise des Eaux, the French utilities group, bought WMI's French operations, which serve municipal, industrial and commercial clients. Page 26

Union Pacific in $6.4bn bid for Pennzoil
Pennzoil shares soared in New York as rival US oil producer Union Pacific Resources launched a hostile $6.4bn takeover bid and filed lawsuits in a move to disable Pennzoil's array of "poison pill" defences. Page 22

Lord Moyne fails in bid to buy Amer
The ownership of Amer, the Finnish sporting goods group, appears to be up for sale again after the collapse of a deal between the owners of the group's controlling K-shares and Lord Moyne, the former Mr Jonathan Guinness, of the Irish beverages dynasty. Page 23

WH Smith loses chief executive to BT
Shares in WH Smith, the UK retailer, fell to a two-year low as it announced the departure of its chief executive, Mr Bill Cockburn, after only 18 months in the post. Mr Cockburn is to become group managing director at BT. Page 26

European sales lift Dickson's profit
Dickson Concepts, the Hong Kong retailer which owns Harvey Nichols of the UK, reported a trebling of net profits to HK$1.35bn (US$174m) for the year to March 31, boosted by the sale of two European operations. Page 24

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
SGL Carbon	237	+	4
Falls			
Allianz	378	−	7
Altana	1883	−	42
GEHE	116.80	−	1.80
Karstadt	630	−	12
Linde	1320	−	24
NEW YORK ($)			
Rises			
Marsh & McInn	74	+	5⅛
Pennzoil	78¼	+	18¾
Tandem Comp	21⅞	+	6⅛
Whitman Corp	25¾	+	2⅛
Falls			
CVS Corp	51¼	−	2
Tosco	28⅞	−	1⅛
LONDON (Pence)			
Rises			
GEC	354	+	15½
Proteus	50	+	6½
TGI	70	+	4½
Falls			
BAT Inds	567½	−	21½
Galliher	282	−	18
Pascoe's	75	−	20
TORONTO (C$)			
Rises			
Abbey Woods	0.70	+	0.50
Beamscope	9.20	+	0.95
Conlasia Res	3.20	+	0.45
Gen Minerals	4.25	+	0.50
Falls			
Colony Pac Exp	1.00	−	0.95
Moffat Comms	28.50	−	1.50

PARIS (FFr)			
Rises			
Alcatel	685	+	12
BIC	985	+	13
Cap Gemini	338.40	+	9.40
Eridania B-Say	898	+	35
Falls			
Pathe	1215	−	27
Sanofi	517	−	21
TOKYO (Yen)			
Rises			
Daiwa House	1350	+	50
Denso	2830	+	70
Honda	3270	+	60
Omron	2400	+	70
Falls			
Aoyama	3620	−	80
Sakura Bank	842	−	22
HONG KONG (HK$)			
Rises			
Bk of E. Asia	31.80	+	1.50
Chinese Est H	7.40	+	0.40
Hasco	29.20	+	2.20
Falls			
First Pacific	9.50	−	0.10
Hang Lung	14.20	−	0.15
New Wld Dev	47.40	−	1.10
BANGKOK (Baht)			
Rises			
Loxley Pobl	52.50	+	4.75
Nam Seng Ins	121.00	+	11.00
Siam Cm Bank	89.00	+	8.00
Thai Farmers	82.50	+	7.50
Falls			
Central Pat	36.00	−	4.00
Pan Asia Foot	11.50	−	1.25

New York & Toronto prices at 12.30

UK chemicals group details planned £1bn public offering

ICI outlines Australian sale

By Nikki Tait in Sydney and Roger Taylor in London

ICI, the UK-based chemicals group, yesterday announced details of the planned £1bn ($1.65bn) public offering of its 62.4 per cent stake in ICI Australia, but refused to rule out the possibility of a trade sale to a single buyer.

The UK group denied it had had discussions with potential bidders but said that if a buyer came forward it would consider any offer.

Analysts suggested it might favour a trade sale as it might be able to retain the Australian paints business. Under the public offering, ICI will lose control of its paint brands, such as Dulux, in Australasia.

The sale, announced in principle last month, is part of a £3bn programme of disposals to fund ICI's £4.9bn acquisition of Unilever's speciality chemicals businesses.

ICI's hopes of raising £1bn from the offering were bolstered yesterday when the Australian group's shares, which have risen since the sale was announced, closed up 20 cents at A$12.60, valuing ICI's stake at A$2.3bn ($1.71bn).

Once the Australian disposal is completed, ICI plans to sell up to £2bn worth of commodity chemicals businesses and to refocus the company on higher-margin speciality products.

The importance of the strategy was underlined in a separate development yesterday, when ICI's shares fell sharply in London. They dropped 40p, or 5 per cent, to 808½p after US broker Merrill Lynch cut its profit forecast for this year from £530m to £450m.

Analysts said further profits downgrades were expected because a rise in the price of commodity chemicals had failed to materialise and because of the continued strength of sterling. Explaining the details of the Australian offering, ICI said retail investors would be offered a 40 cent discount on the offer price and would not be asked to pay more than $12.40 per share.

No fixed price has been established for the offer but institutional investors are invited to submit bids from July 1.

Priority will be given to applications from existing ICI Australia shareholders.

Between 120m and 143m shares will be offered for sale, with underwriters being given an additional "over-allotment" option of up to 12m shares. If exercised, this would mean ICI would sell 155m shares, out of its total holding of 185m, through the offer.

The remaining stake is due to be bought by ICI Australia, which has already agreed to buy back up to A$360m-worth of shares from ICI, at a 1.5 per cent discount to the offer price or A$11.96, whichever is higher.

This is subject to shareholder approval at an extraordinary meeting to be held on Wednesday.

ICI said it expected to announce the final offering price, as a result of bids received, and the basis for allocations on July 12.

Reed buys Disney's Chilton trade titles

By Raymond Snoddy in London and Chris Parkes in Los Angeles

Reed Elsevier, the Anglo-Dutch media and information group, yesterday expanded its interests in US trade press publishing by agreeing to pay $447m in cash for the three main divisions of the Chilton Business Group.

Chilton, which owns trade magazines in the manufacturing, entertainment, automotive and specialist retail sector, is part of ABC, the television network group, in turn a subsidiary of Walt Disney.

The deal fits Reed's strategy of expanding in the fields of professional "must have" information, with emphasis on the US market.

Less than three months ago the company agreed to spend $320m on MDL Information Systems, a company specialising in research and development information.

Reed executives are pleased that the Chilton deal will give Cahners, its US publishing division, business magazines in the automotive sector.

Chilton, which has 39 titles and operates mainly from Radnor, Pennsylvania, reported profits before tax of $28m on revenues of $203m in the year to December 1996.

The company's trade magazine and research services divisions will merge with Cahners to form Reed Elsevier Business Information. The new operating group will be headed by Mr Bruce Barnet, Cahners' president and chief executive.

Mr Barnet said yesterday that the acquisitions – especially the manufacturing and entertainment titles – gave his company "greater connectivity" in its main markets and added to the volume of data available for its database and other electronic services.

The disposal brings Disney's pre-tax gains from sales of publishing interests to more than $2bn this year.

Knight-Ridder paid $1.65bn in April for four regional daily newspapers. Disney retains a handful of smaller newspapers, Institutional Investor, the financial periodical, and Women's Wear Daily, an influential clothing industry and fashion publication.

Mr Barnet said he had taken a "cursory" look at some of these assets, but decided they did not fit his company's strategy.

S&P warns that more Japan life assurers may fail

By Gillian Tett in Tokyo

New failures in Japan's life assurance sector are "probable" in the coming years as Japan prepares for "Big Bang" financial deregulation, Standard & Poor's, the US credit rating agency, said yesterday.

The warning comes as five big Japanese life assurance groups have been assigned low credit ratings by S&P – implying they could pose risks for policyholders.

Two months ago Nissan Mutual startled the financial sector by becoming the first Japanese life assurer to fall since the second world war.

The Japanese government insists the problems at Nissan Mutual are isolated: a plan to manage the closure of the group and its Y300bn ($2.62bn) potential losses was broadly agreed last week.

However, analysts suspect that other weak companies might now also be at risk. They argue that Nissan Mutual's problems appear to be encouraging Japanese companies to move their money out of weak life assurance groups and place them with Japanese and non-Japanese fund managers instead.

Mr James McGinnis of Dresdner Kleinwort Benson said: "Nissan Mutual is inevitably going to lead to the cancellation of other contracts – I would not be surprised to see further insolvencies."

The life assurance sector has been one of the least researched and most opaque in corporate Japan, because the companies are unlisted. Consequently, S&P warned that the ratings of the companies' ability to pay claims might not be conclusive, as some were based on public information rather than internal company data.

However, it has recently assigned new "B" ratings to three life assurance companies: Kyoei Life, Nippon Dantai Life and Toho Mutual. It has also reaffirmed ratings of "B" at Chiyoda Mutual and "BB" at Mitsui Mutual.

This is below the "BBB" level considered "to be financially secure to meet policyholders' needs". Mr Robert Mebus, director of S&P international insurance ratings, said: "Based on public information we think that there are real issues with these five companies."

He added: "The collapse of Nissan Mutual should act as a wake up call not just for the life sector, but for the non-life area as well." In the longer term, Big Bang should be positive for the industry as a whole, S&P added. However, in the short term it said "further industry consolidation ... and additional insolvencies seem probable".

S&P has also awarded strong ratings of "A+" to Yasuda Mutual and Daido Life, and "A++" to Nippon Life, Japan's largest life assurance group.

The discrepancy highlights the gap opening up between the stronger and weaker companies in the sector. And this trend is likely to appear again next month when data on companies' 1996 fiscal year liabilities are published. The first round of information on their 1996 fiscal year revenues emerged this month.

Lonrho nears decision on JCI

UK conglomerate on course to become focused mining group

By Ross Tieman in London

Talks over a £2bn ($3.3bn) merger between UK-based conglomerate Lonrho and its South African suitor, the black-controlled mining group JCI, will come to a head this week.

"I believe the position with JCI will be clarified in days, rather than weeks," said Mr Nicholas Morrell, Lonrho chief executive, as he announced pre-tax profits before exceptional charges down 38 per cent at £38m for the half-year to March 31.

The figures were in line with analysts' expectations, downgraded in the spring after Lonrho warned that weak precious metal prices, poor motor sales in Africa and a strong pound would hit profits.

Mr Morrell said options under discussion with JCI involved a limited deal on mining assets, including the purchase by Lonrho of JCI's South African coal interests Tavistock.

Lonrho's Duiker Mining, valued at £125m, produced 4m tonnes of low-sulphur coal last year, but output is constrained by inadequate export facilities. Combining it with JCI's reserves would also give access to JCI's facilities.

Talks between the two groups became public a month ago. "We are very keen to make sure that, whatever the deal, our shareholders' interests are protected," Mr Morrell said. "No matter how attractive it looks on the outside, we have got to make sure it is not just wrapping paper."

Interest in Lonrho among would-be predators and partners has increased as its new management, chaired by Sir John Craven, has started to break up the group founded by Mr Tiny Rowland. Mr Morrell said Lonrho would be willing to consider approaches from other African mining houses.

Lonrho's Metropole Hotels and sugar plantations have already been sold, reducing gearing to 25 per cent. The Princess resort hotels are expected to be sold to Prince Alwaleed bin Talal bin Abdulaziz al Saud, the Saudi investor, in four to five weeks.

Mr Morrell said Lonrho was on course to become a focused mining group. It aimed to demerge its African Trading business towards the end of the first quarter of 1998. Lonrho shareholders would be given shares in Lonrho Africa, which would be quoted in London and later in Johannesburg. Spare cash might also be distributed as a special dividend.

Before that, Mr Morrell plans to float off Lonrho's UK motor distributor, Dutton-Forshaw Group which lifted sales by 12 per cent last year and achieved operating profit of £6m. In further moves to streamline its UK portfolio, Lonrho is looking to sell Cramlington Textiles, which lost £1m in the first half, and Sunley Turriff, the lossmaking construction group.

Baumann Hinde, the cotton merchant, is likely to be transferred into the African trading business ahead of flotation. It may be joined by FE Wright, the Lloyd's broker, which has a strong portfolio of African clients. Lonrho shares rose ½p to 129p.

Sir John Craven, Lonrho chairman, faces interest from predators as the group's break-up progresses Picture: Colin Beere

Eli Lilly charge underlines shift in US healthcare

By Richard Waters in New York

Eli Lilly, the US pharmaceuticals company, yesterday announced a $2.4bn charge to reflect the fall in value of PCS, a company it bought three years ago to try to secure wider distribution for its drugs.

The widely expected move underlines how far the prospects for the US healthcare industry have shifted since the early years of the Clinton presidency. It also raised questions over the success of similar big acquisitions by rivals Merck and SmithKline Beecham, although Wall Street analysts said neither had fared as badly as Eli Lilly.

PCS was one of a handful of so-called pharmacy benefit management companies which rose to prominence in the early 1990s as US companies sought to curb spending on healthcare for employees.

These companies supply prescription drugs at a discount, while also limiting access to more expensive medications. By signing up big companies as customers, they quickly came to control large budgets, giving them huge bargaining power with drugs makers.

Eli Lilly paid $4.1bn for PCS in 1994, shortly after Merck had agreed to buy Medco Containment Services for $6.6bn and SmithKline Beecham spent $2.3bn on DPS. The three believed the purchases would expand their market shares, making up for the lack of growth they faced as a result of possible price controls.

Mr Randall Tobias, Eli Lilly chairman, said "changes in the healthcare environment that were under way at the time of our purchase of PCS in 1994 have occurred more slowly than we expected".

In particular, he singled out the failure of Mr Clinton's healthcare reform plan and "the slowing of the industry trend to strict managed healthcare", under which patients are restricted in their access to drugs and other healthcare.

Ironically, these trends have benefited Eli Lilly and other pharmaceuticals companies which have been able to raise prices and continue marketing patented prescription drugs. This has led to a renewed surge of enthusiasm for the companies on Wall Street.

Analysts blamed Lilly for paying too much for PCS in the first place and for being less successful than either Merck or SmithKline Beecham in integrating its acquisition.

Mr Hemant Shah, an industry analyst, said Lilly had acted less aggressively than the other two in using PCS to sell more of its own drugs at the expense of its rivals. All three, though, have been restricted by the Federal Trade Commission in how far they can use the marketing companies to push their own drugs.

The write-down of PCS will lead to a charge of $4.40 a share in the second quarter, Lilly said. The acquisition "was a giant hedge [against price controls] and it has not paid off", said Mr Shah – though the unit would leave Lilly in a good position if healthcare reform returned to the political agenda, he added.

UPR launches hostile bid for Pennzoil

By Christopher Parkes in Los Angeles

Pennzoil shares soared in New York yesterday as rival oil producer Union Pacific Resources launched a hostile $6.4bn takeover bid and filed lawsuits in a move to disable Pennzoil's array of "poison pill" defences.

The target's stock rose more than 40 per cent to $85 before the market opened, after UPR, which was spun off from the Union Pacific railway group last year, presented its cash and stock offer.

The bid could mark a new, more aggressive stage in the shake-out of the US oil industry, which for the past year has centred on friendly asset swaps and collaborative afforts to restructure the crowded oil refining and petrol retailing sector.

It follows four months of futile attempts by UPR to open merger talks with Pennzoil and approaches made in 1995, when Pennzoil proposed merging with UPR when it was still part of Union Pacific, the bidder said yesterday.

UPR, which has annual revenues of about $2bn, compared with Pennzoil's $2.6bn, presented its offer as an attempt to create the "premier independent exploration and production company in the US". According to a letter released yesterday, Pennzoil had previously rejected all offers, without any discussions with UPR.

"Your continued refusal to discuss the rationale or valuation of a transaction has left us with no choice but to present our offer directly to Pennzoil shareholders," wrote Mr Jack Messman, UPR chairman and chief executive. "We are still prepared to discuss a friendly transaction," he added.

Mr Messman's letter, to Mr James Pate, his counterpart at Pennzoil, stressed the complementary nature of the two companies' operations – UPR's drilling and exploration expertise, and Pennzoil's US production base, refining and marketing operations and internationally known brand-name.

Pennzoil yesterday said it would reply to the offer by July 7 and asked shareholders not to take any action before then.

According to terms released yesterday, UPR proposed a cash tender offer for 50.1 per cent of Pennzoil's stock, followed by a tax-free exchange of shares for the balance, in a deal valued at $84 a share.

UPR also yesterday filed three lawsuits, including one in a Delaware court seeking a judgment ordering Pennzoil to lift its anti-takeover defences. UPR claimed the defences, including a poison-pill shareholder rights plan, would unlawfully prevent shareholders from accepting the offer and would "entrench Pennzoil's management".

Tandem deal puts Compaq in global league

Compaq Computer's ambitions know few bounds. With the acquisition of Tandem Computers, the personal computer industry leader aims to leapfrog much larger companies to become the world leader in all types of "open systems" computers.

Already, Compaq has become a formidable competitor to some of the world's biggest computer companies such as International Business Machines, Hawlett-Packard and Digital Equipment.

Building on its strong base in personal computers, Compaq has become the runaway leader in so-called "PC servers", computers that are widely used in office networks. Recently, Compaq also launched an attack on the workstation market with products that match tha performance, at much lower prices, of workstations from Sun Microsystems and Hewlett-Packard.

With the Tandem acquisition, Compaq will extend its product range into high performance servers, sometimes known as "mainframe alternative" computers. This will enable it to compete at almost every level of computer power, with the world's biggest computer companies.

Compaq already ranks among the largest sellers of computer hardware, with revauues last year of $18.1bn, the vast majority of it from computer sales.

By comparison, Digital Equipment's total revenues of $14.6bn last year included a large services operation. Compaq also claims to have overtaken Hewlett-Packard, the second largest US computer company, in terms of computer sales.

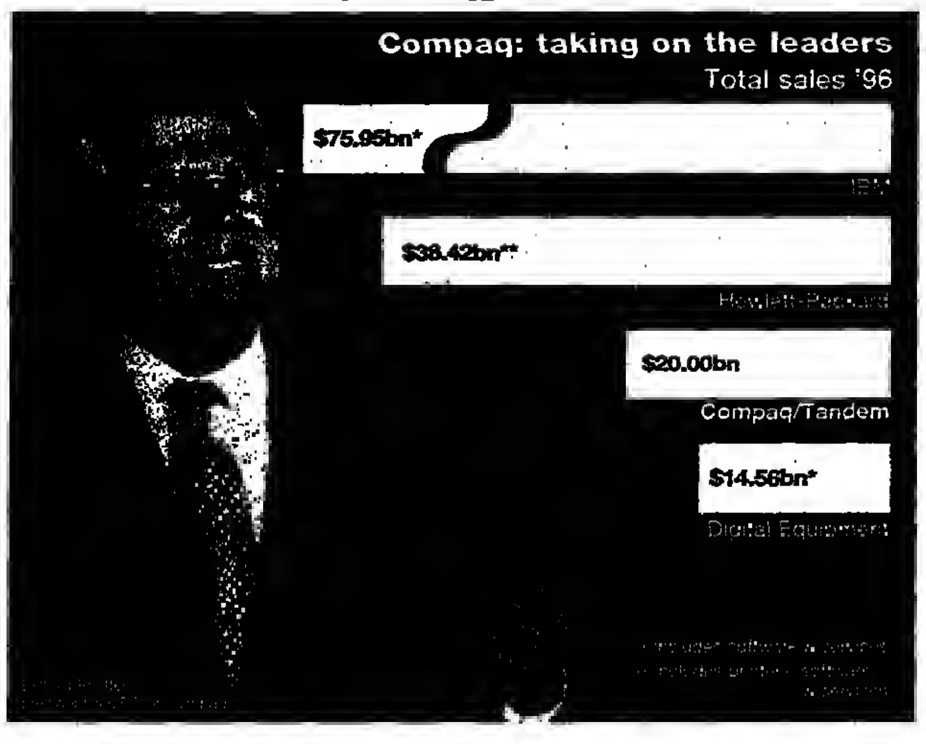
International Business Machines, with 1996 revenues of $80bn, is much bigger, but it too has large services and softwara operations.

The combination of Compaq and Tandem is "a perfect match", Mr Eckhard Pfeiffer, Compaq chief executive, said yesterday. Compaq will be able to offer its customers a "one-stop shop" for all types of computers, he said.

Tandem is best known for its "fault-tolerant" computers – systems that continue running in spite of component failures.

Recently, however, Tandem has overhauled its product lines and refocused its strategy to concentrate on high performance, secure online transaction systems based on industry standard Intel chips and Microsoft software.

"This will double the size of the market we address," said Mr Pfeiffer. Tandem will also bring to Compaq many of the things the company needs if it is to achieve its ambition to become one of the world's top computer suppliers.



The size of Compaq's sales force will double overnight to about 8,000 people, enabling the company to address broader markets. Tandem's expertise in system software will also be an important addition to Compaq's arsenal.

The purchase will immediately add to Compaq's revenues, the company said. Tandem will, however, have to realign its operating system software strategy to focus on Windows NT. Until now it has also offered Unix systems.

Windows NT, Microsoft's server operating system, "is gaining incredible momentum" said Mr Pfeiffer. Compaq enters the high-end server market as "the most powerful company to market Windows NT systems," he claimed.

Reviewing the competitive landscape, Mr Pfeiffer said that Digital Equipment, which claims to be the leading supplier of Windows NT servers, was faltering due to its legal battles with Intel, the microprocessor manufacturer.

Digital also faces the challenge of maintaining the momentum of its "Alpha" products built using its own proprietary microprocessors.

Hewlett-Packard, while stronger, has only recently begun to embrace the Windows NT operating system for high performance servers, with most of its products running the Unix operating system.

While HP is working with Intel on the development of a new generation of high performance microprocessors, Compaq, as Intel's largest customer, will also be closely involved, Mr Pfeiffer said.

As the companies combine operations, Tandem will retain its name and be known as "a Compaq company". Tandem's Mr Roel Pieper will remain chief executive of the subsidiary and report to Mr Pfeiffer.

Compaq's acquisition of Tandem also brings together two of the veterans of the US venture capital community; Mr Ben Rosen, chairman of Compaq and Mr Tom Perkins, chairman of Tandem, who will join Compaq's board.

Louise Kehoe

AMERICAS NEWS DIGEST

Southam vote is postponed

A vote was postponed until last night on a contentious bid by Hollinger, the international media group controlled by Mr Conrad Black, to buy out minority shareholders in Southam, Canada's biggest daily newspaper chain.

A special meeting of Southam shareholders, originally scheduled for 11am Toronto time, was postponed until 6pm on the grounds that Hollinger's offer only expired at 5pm.

Several large institutional shareholders earlier indicated they would vote against the Hollinger cash-and-shares offer. A committee of independent Southam directors has valued the offer at C$23.55-23.85 a share.

The directors recommended acceptance after Hollinger modified the offer earlier this month without increasing the monetary amount. However, some analysts and shareholders have suggested the offer undervalues Southam value by C$1-C$1.50 a share.

Mr Peter Atkinson, a Hollinger director, said yesterday the offer would not be improved before the reconvened meeting.

Hollinger presently owns 50.5 per cent of Southam. It requires the approval of two-thirds of minority shareholders to take Southam private.

Bernard Simon, Toronto

Fairfax buys Sphere Drake

Fairfax, the Canadian insurer, has bought Sphere Drake, the Bermuda-based reinsurance group, in a deal valuing it at up to $320m. The acquisition of Sphere Drake, which went public on the New York Stock Exchange four years ago after it was bought out from Alexander & Alexander, its US parent, is the latest twist in a restructuring of the reinsurance sector.

Shareholders in the group will receive $7.50 a share in cash or Fairfax shares and up to $9.86 a share payable in 10 years. Fairfax will take on Sphere Drakc's debt of $100m.

A flurry of acquisitions over the last year has reshaped the reinsurance industry. Demand for reinsurers with the financial clout and geographical spread to absorb big risks has grown, while falling premium rates have intensified competition.

Sphere Drake suffered n slide in first-quarter pre-tax profits this year from $9.6m to $2.6m amid deteriorating market conditions. It has been restructuring its operations in Bermuda and in London and sold its specialist yacht and cargo business to Cox Insurance, the Lloyd's insurer, in January. Its three largest shareholders – Centre Capital Investments, Electra Investment Trust and Dai-Tokyo International, representing 40 per cent of the shares – have already backed the offer from Fairfax. Shares in Fairfax rose C$11 to C$373 in Toronto, while Sphere Drake slipped $¼ to $8¾ in New York.

Christopher Adams, London

Thomson silent on sale talk

Thomson Corp declined to comment yesterday on reports published in the UK that the company was looking to sell Thomson Travel Group, its UK-based leisure unit, to London investment banks. A spokesman at Thomson's headquarters in Stamford, Connecticut, declined to confirm that the Toronto-based conglomerate was in talks to sell the travel unit, which comprises the UK's second-largest charter airline and the Lunn Poly chain of travel agencies.

In 1996, Thomson Travel accounted for US$2.48bn, or 33 per cent, of the conglomerate's $7.72bn of revenue. Thomson's important holdings include Thomson Travel, Thomson newspapers, which publishes more than 100 daily newspapers in North America and more than 350 advertising supplements, and West Publishing Co, which Thomson acquired in 1996 for $3.425bn in cash.

Reuter, Toronto

Midas to be spun off

Midas International, the world's largest automotive service franchise, will be spun off as an independently traded company so that Whitman, its parent, can focus on its giant Pepsi-Cola bottling business, Whitman said yesterday. Whitman will also spin off Hussmann Corp, a large food refrigeration systems maker, as part of the plan to shift direct ownership of the subsidiaries to Whitman shareholders.

Whitman owns Pepsi-Cola General Bottlers, the world's largest independent Pepsi-Cola franchisee, which accounts for half the company's sales and more than half its operating income. The board also authorised the repurchase of an additional 5m shares of its common stock. Analysts applauded the announcement, boosting Whitman's stock $2.50 to $25.875 on the New York Stock Exchange in late-morning trading. *Reuter, Chicago*

Repsol mulls Argentine buy

Repsol, the large Spanish energy group, may increase its 45 per cent stake in Argentina's Pluspetrol Energy as part of its expansion in the region, Repsol said yesterday. Repsol would make the Pluspetrol purchase through Astra CAPSA, another Argentine energy company of which it holds 48 per cent. "We're talking" about the possibility, said Mr Miguel Angel Remon Gil, Repsol head of planning and control.

The Spanish company paid $340m for its initial Pluspetrol stake in January. Pluspetrol has a 60 per cent interest in the northwestern Ramos field, which holds 100bn cu m of gas, making it the nation's second-largest gas field, and 100m barrels of petroleum. It also owns cogeneration plant Central Termica Tucaman, which uses gas from the Ramos field.

Repsol has said it plans to spend 540bn pesetas ($3.7bn) in exploration and development over the next five years. Some 400bn pesetas will be designated for international expansion, including 50bn pesetas for Latin America.

AP-DJ, Buenos Aires

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Alcatel Alsthom and Cisco unveil networks tie-up

By Richard Waters in New York

Two of the world's biggest makers of telecommunications equipment yesterday announced a partnership agreement to try to capitalise on the rapid convergence of the internet and traditional voice telephone networks.

The agreement brings together Cisco Systems, the US company which dominates the market for the routers which control traffic on the internet, and Alcatel Alsthom, the French group which claims to be the biggest manufacturer of the switches which are central to voice networks.

The relationship is unlikely pairing of an entrepreneurial West Coast company with a long-established European manufacturer.

Mr John Chambers, Cisco chief executive, acknowledged that such partnerships always posed challenges and often failed.

However, he added that the two sides had planned 10-12 new products or services as a result of the link, and that this provided a framework for the two companies to work together for the next three years.

Although the agreement is not exclusive, it represents a coup for Alcatel. The company would otherwise have had to develop its own expertise in equipment that can handle both voice and data traffic, said Mr Jozef Cornu, president.

The link with Cisco, which makes about 80 per cent of internet routing equipment, will give Alcatel a tie with the company which is widely acknowledged as leader in the sector.

The California-based group also has the software skills that will enable Alcatel to develop "intelligent" switches that can be programmed by customers to provide services they request, said Mr Cornu.

For Cisco, the partnership could provide a new source of revenues and help reinforce its leading position in infrastructure for data networks.

The new products and services which will result from the relationship are intended to generate $500m of extra revenue for Cisco by 2000, said Mr Chambers.

Although he did not describe these products in detail, he said that they would include both the equipment through which users access telecommunications networks, as well as the wider networks themselves.

Both companies said they had been prompted to act by the convergence of voice, data and video traffic, which reflects a demand from customers for a single access point to telecommunications networks.

Neither company ruled out closer ties in the future.

News Corp, TCI in $850m buy

By Christopher Parkes

News Corporation yesterday extended its reach into the US sports television market with a $850m joint-venture deal to buy 40 per cent of Rainbow Media, owner of the Madison Square Garden venue, sports teams and a clutch of regional sports TV networks.

The move, in harness with Tele-Communications Inc, the biggest US cable TV operator, is believed to be the second time in a month that News Corp has outbid Walt Disney for a popular US television concern.

Following the $1.9bn purchase of International Family Entertainment – whose widely distributed Family Channel service also attracted Disney's attention – the latest buy will help strengthen News Corp's hand against Disney's ESPN cable networks.

Although Disney is believed to have joined the bidding in an attempt to foil News Corp's ambitions, its chances were limited by a recent deal under which TCI exchanged 800,000 of its New York cable subscribers for a one-third stake in Cablevision, which owns 75 per cent of Rainbow.

News Corp, which is controlled by Mr Rupert Murdoch, is also currently in the closing stages of talks to buy the Los Angeles Dodgers, one of the best-known US baseball teams.

Under the deal announced yesterday, Fox/Liberty Networks, jointly owned by News Corp and TCI, will share control with Rainbow of a national sports programming venture which will reach 55m US households.

Programming – all under the Fox Sports Net name – will appear on nine Fox/Liberty cable TV networks, eight Rainbow channels and News Corp's fledgling Fox Sports regional systems.

"This is a major step in providing a real national sports network under the Fox name," Mr Murdoch said.

Rainbow is currently 75 per cent owned by Cablevision, a leading cable operator, with the remaining 25 per cent in the hands of NBC, the top-rated broadcast network controlled by General Electric.

The link is expected to fill several gaps in Fox's strategy and give it access to lucrative advertising markets such as New York and Chicago.

Rainbow will retain management control of the Madison Square Garden sports venue in New York, the MSG TV network that bears its name and the local Knicks and Rangers sports teams.

However, the new venture could lead to closer links as Mr Murdoch builds on his embryonic collection of sports taams and arenas.

Family conflict over Publicis stake grows

By Andrew Jack in Paris

One of the children of the founder of Publicis, the quoted French advertising agency. yesterday raised the stakes in her battle to sell her shares in the group by threatening legal action.

In an interview in Les Echos newspaper, Ms Michèle Bleustein-Blanchet attacked Somarel, the family holding company that owns 38 per cent of Publicis, and warned she would sue unless a settlement was reached soon.

Ms Bleustein-Blanchet, the daughter of Marcel Bleustein-Blanchet, who created Publicis in 1927, has been trying to sell her stake in the group since her father's death last year.

She said that there was a "real disagreement" over ownership and demanded that Somarel's statutes be changed and its illiquid, unlisted shares be converted into Publicis shares, which are quoted in Paris.

She accused her elder sister, Ms Elisabeth Badinter, the head of ths Publicis supervisory board since the death of her father, of blocking the sale of her shares in Somarel by "dissuading" potential purchasers.

She said her sister, who owns nearly 34 per cent of Somarel and has the mandate to run the group until 2015, had never played a "decisive role" in Publicis, whereas she had headed its Drugstores business from 1972 to 1981.

Ms Bleustein-Blanchet owns nearly 8 per cent of Publicis directly, but most of her stake is held through Somarel, in which she owns just under 30 per cent.

Somarel's shareholders – who include Mr Bleustein-Blanchet's widow, his two surviving daughters and the two children of his deceased daughter – have pre-emption rights in any share sales. Under a change to the statutes, Ms Badinter also has minority blocking power.

Ms Bleustein-Blanchet said she had appointed SBC Warburg, the investment bank, to find a buyer for her stake in Publicis by mid-August.

Mr Maurice Lévy, chief executive of Publicis, denied he was interested in buying Ms Bleustein-Blanchet's stake, which he said could fetch nearly FFr1bn ($170m).

Maurice Lévy: confident that a solution can be found

Trumpf sees strong demand

By Peter Marsh

Trumpf of Germany, Europe's second-biggest machine tool company, said yesterday that demand for its specialised cutting systems remained strong and announced that profits for its financial year ending next week would rise about 16 per cent compared with 1995-96.

On the basis of provisional data for the year to June 30, the privately-owned Trumpf expected sales to rise some 16 per cent from DM927m the previous year to about DM1.07bn ($618m).

There would be a corresponding rise in pre-tax profit, implying an increase from DM105m to about DM123m.

Mr Ludwig Litzenberger, marketing director, said sales had been strong across most of Trumpf's main markets – particularly the US, which accounts for about one-sixth of sales. The year ahead looked "promising", he said. The weak D-Mark had helped sales outside Germany, which account for 60 per cent of revenues.

Trumpf is the world's biggest maker of laser cutting tools for shaping sheet metal in a range of industries, including computers, farm machinery and office equipment. Unlike many of its competitors, the company makes its own lasers.

Business versus state in Oslo

Opponents of NKr13bn merger have attacked government role

A cliff-hanger vote is expected on Thursday when up to 1,500 shareholders in Storebrand, Norway's largest insurance company, will pack Oslo Concert Hall to decide on a proposed merger with Christiania Bank, the country's second-largest commercial bank.

The merger would create a group, topped by a holding company, with a market value of about NKr13bn ($1.78bn), making it the sixth-largeet financial services group in the Nordic region, and the second-largest company on the Oslo Stock Exchange.

But the vote will also give a colourful collection of Norwegian entrepreneurs a chance to further their campaign for a reduction in state ownership of business. Their argument is that state ownership reduces competition and keeps prices high.

Several of the largest shareholders in Storebrand – including Orkla, the food and beverage industry group, and Mr Kjell Inge Roekke, the chairman and largest shareholder in RGI, the offshore engineering and seafoods group – have refrained from saying how they will vote on Thursday, which leaves the fate of the merger wide open.

Christiania and Storebrand's boards claim that the formation of a powerful domestic "bancassurance" group will create a more competitive force with enhanced growth prospects and an improved profit outlook. The group, which would adopt the Christiania name, would have about 32 per cent of the domestic life assurance market, 39 per cent of the non-life market and 12 per cent of the market for bank loans, and would manage 18 per cent of the country's mutual funds.

Thursday's vote on the Storebrand-Christiania link-up will also give a colourful collection of Norwegian entrepreneurs a chance to further their campaign for a reduction in state ownership of business

But the industrial justification of the link-up has been overshadowed by the personal ambitions of some of the main players and the issue of the role of the state in Norwegian business.

The state directly owns about 51 per cent of Christiania Bank through its Bank Security Fund, which was established during the banking crisis of the early 1990s. The fund would be left with just over 25 per cent in the group created by the merger, although stakes held by other state bodies, including the Social Security Fund and Postbanken, would give the state control over one-third of the shares.

This gives the state a privileged status, for no single private shareholder, or associated group of shareholders, may own more than 10 per cent of the capital in a financial services company, according to Norwegian law.

The state also has a majority stake in the other main Norwegian financial services group, Den norske Bank, and its insurance subsidiary, Vital.

Outside of banking and finance, the state enjoys full ownership of Statoil, the oil and gas production and distribution company, and a 51 per cent holding in Norsk Hydro, the oil and gas, light metals and fertiliser group.

If Mr Roekke and Mr Jens P. Heyerdal, Orkla chief executive, come out against the merger on Thursday, they will almost certainly argue that the increasing power of the state over Norwegian business is the reason for their opposition. The argument was recently aired by shipowner Mr Tharald Broevig, who owns 0.7 per cent of the shares in Storebrand and is campaigning against the merger.

He is worried by the narrowing of the plurality of ownership in Norwegian business. "Less plurality means less competition, less innovation, less efficiency, higher prices and bigger profits," he says. He says that once the state becomes a substantial shareholder in a company, hostile raiders do not stand e chance. "No wonder growing state ownership/influence meets so little opposition from corporate managements," he said.

The colourful Mr Roekke, aged 37, is just such e hostile raider. He joined a trawler when he left school aged 16, and went on rapidly to build up a substantial fortune in the fisheries business, mainly though operations based in Seattle. Last year he gained control of Aker, one of the jewels in Norway's industrial crown, which he merged with his own Resource Group International. The Norwegian business establishment was rocked to its core.

One of those who tried to block Mr Roekke's way toto Aker was Mr Lars Korsvold, chief executive of Storebrand. The speculation in Oslo is that if Mr Roekke and his friends can muster the 33 per cent of the votes necessery to block the merger, Mr Korsvold's tenure of his position at Storebrand will be notably brief.

Hilary Barnes

EUROPEAN NEWS DIGEST

Heavy demand for OTE retail tranche

Retail demand outstripped institutional interest in OTE, the Greek public telecoms operator, in last week's sale of a 12 per cent equity stake under the Socialist government's partial privatisation scheme. The Dr120bn ($438m) retail tranche was oversubscribed 3.5 times, while the remaining Dr230bn was oversubscribed 1.6 times by international and domestic institutions.

Retail investors bought 35 per cent of the offering but were allocated only 80 shares each, officials said. Domestic institutions took up 17 per cent of the offering, with preference given to Greek pension funds, while international institutions covered the remaining 48 per cent. OTE's share price has fallen in the after-market, from Dr6,900 to the book-building price of Dr6,600, with several international institutions selling their allocations immediately. However, the operator's Dr189bn rights issue, which followed the equity offering, was fully subscribed. The Greek state bought its full 80 per cent quota.

The Greek operator plans to use proceeds from the issue to acquire stakes in regional telecoms companies. It is negotiating for 85 per cent of Armen Telecom, the Armenian state operator, following the acquisition earlier this month of 20 per cent of Telekom Serbia, and also plans to bid for a minority stake in BTC, the Bulgarian operator, due to be privatised later this year.

Kerin Hope, Athens

Roche agrees US deal

Roche, the Swiss pharmaceuticals company, could end up owning close to 10 per cent of ICN Pharmaceuticals, the US group, following the sale to ICN of a manufacturing plant in Puerto Rico and nine prescription drugs. ICN is buying Roche's plant at Humacao, Puerto Rico, for $55m and paying another $90m for the worldwide rights to seven Roche products and the non-US rights to two others.

ICN is paying cash for the manufacturing plant and will issue 1.6m shares of common stock and 2m shares of convertible preferred stock for the product rights. ICN has about 37m shares outstanding and is capitalised et just under $900m. Roche's decision to sell the products, with annual sales of $55m, is part of its strategy to streamline its product portfolio and improve the efficiency of its manufacturing operations. *William Hall, Zurich*

Orix in Polish leasing move

Orix Corporation, the Japanese group which is one of the world'e largest leasing companies, has entered Poland's $600m-a-year leasing market by taking over the Polish Leasing Fund, which was set up two years ago by the European Bank for Reconstruction and Development and the US-funded Polish American Enterprise Fund.

Some 6 per cent of capital goods purchases in Poland are financed through leasing arrangements. Orix is the first large foreign-owned leasing company to enter Poland. It is in partnership with the EBRD, which retains e 15 per cent stake in the venture. The PAEF has sold its stake in the PLF to Orix. *Christopher Bobinski, Warsaw*

Tiama buys Eleusis shipyard

Tiama, the Greek ship-repair company, is to pay Dr30bn ($110m) for the assets of Eleusis Shipyards, which was placed in liquidation two years ago by the Socialist government. The deal marks the revival of a much-delayed privatisation programme for heavily-indebted state enterprises. Payment will be made in instalments over 15 years, and Tiama will retain at least 750 of the 1,800 workers at the yard. Tiama has agreed to invest Dr6.6bn in modernising the yard, which repairs medium-sized vessels near Piraeus port. The sale of Eleusis means thet Greece's three big state-owned shipyards are all under private control. *Kerin Hope*

Hapoalim sell-off set to start

Two investor groups are expected to begin bidding within days for a stake in Bank Hapoalim, Israel's largest bank which is being partially sold as part of the government's privatisation programme.

The Israeli newspaper Ha'aretz reported that the investor group led by Mr Ted Arison, the US businessman, plans to bid between US$825m-$890m for 33 per cent of the bank, which would value it at between $2.48bn and $2.67bn. At current prices, Bank Hapoalim's market capitalisation is about $2.8bn. Mr Arison's group includes Claridge-Israel, the investment company backed by Mr Charles Bronfman, the Canadian entrepreneur. The second group, led by Mr Jeffrey Keil, the US banker, is also expected to begin talks with the government shortly.

Avi Machlis, Jerusalem

Amer back on block as deal collapses

By Hilary Barnes in Copenhagen

The ownership of Amer, the Finnish sporting goods group, appears to be up for grabs again after the collapse of a deal between the owners of the group's controlling K shares and Lord Moyne, the former Mr Jonathan Guinness, of the Irish beverages dynasty.

The latest twist in the tale of Amer's recent fortunes came when four academic institutions, which own 12.6 per cent of the shares but 91 per cent of the voting capital, cancelled an agreement with Lord Moyne, who was proposing to buy 58.4 per cent of Amer's stock for FM301m ($58m).

Amer gave no reason for the cancellation.

Mr Keikki Kauppi, director of one of the four institutions, the Association of Graduate Engineers, was quoted by a leading Helsinki newspaper as saying: "The terms of the contract have failed to materialise."

Just over 60 per cent of Amer's turnover of FM4.9bn comes from two sporting goods companies – Wilson, which manufactures tennis equipment, and Atomic, the ski-maker.

The group sold another sports goods unit, golfing equipment business McGregor, last year.

The cancellation of the deal with Lord Moyne may open the way for a new approach from Norvestia, the Finnish investment company.

Norvestia made an initial approach to the holders of the K shares but was rebuffed because of Lord Moyne's offer.

Mr Timo Loeyttyniemi, chief executive of Norvestia, said that his company was still prepared to buy part of Amer's K shares.

Amer has been plagued by losses, changes of senior managers, failures to meet earnings forecasts and disputes over corporate strategy over the past two years.

The ownership structure has not helped Amer to sort out its problems.

The four institutions have been bound by an arrangement whereby they must all agree to sell their K shares or none can be sold.

The agreement with Lord Moyne finally promised to give the company an owner who would enable the group to re-establish a sense of direction.

However, Mr Roger Talermo, chief executive, was quoted as saying: "Things can hardly get worse," with managers unable to focus on running the company as long as the ownership issue is still unsettled.

COMPANIES AND FINANCE: ASIA-PACIFIC

Korean carmakers dismiss talk of cash problems

By John Burton in Seoul

The chairman of the Kia motor group yesterday met South Korea's finance minister to complain that rumours about the conglomerate's financial health were making it difficult to secure new loans.

The meeting followed e request by Kia's car and steel divisions that the state-run Korea Development Bank provide a total of W60bn ($67.5m) in emergency loans, as some creditors were reluctant to provide more funds to the country's third-biggest carmaker.

Share prices of Kia companies heve fallen sharply in the past week after Asia Motors, its truck subsidiary, briefly delayed loan payments because of a cash flow problem caused by the "groundless malignant rumours", according Mr Kim Son-hong, Kia chairman.

It was the latest example of how Kia and Ssangyong, the nation's fourth-biggest vehicle producer, have been troubled by rumours in recent months as the Korean car industry confronts a saturated domestic market and production over-capacity.

Speculation about the fate of many of Korea's conglomerates has circulated after the bankruptcy of the Hanbo and Sammi steel groups earlier this year.

Kia and Ssangyong are considered to be financially less robust than their bigger car rivals, Hyundai and Daewoo. But Ssangyong and Kia officials suspect they are victims of a campaign to undermine creditor confidence and force them to merge with competitors.

The issue came to the fore recently when Kia and Ssangyong threatened to sue Samsung, another Korean conglomerate that is scheduled to begin car production next year.

The two carmakers protested against an internal Samsung report leaked to the media that suggested the government should encourage e consolidation of the crowded Korean motor industry through mergers. The Samsung report was interpreted as an indication that it intended to take over either Kia or Ssangyong.

Ssangyong would appear to be most vulnerable because it has debts of nearly $4bn and five years of losses amounting to Won500bn. But Ssangyong officials claim there is little chance of Ssangyong Motor going bankrupt.

"People have been overreacting to our financial situation. Their assumption is that if the debts are large, then we must have a problem. But the Ssangyong group is financially strong and big enough to support Ssangyong Motor's debt," said Mr K.T. Chang, a Ssangyong executive vice-president who supervises the car project.

Ssangyong said it had no intention of selling its car division. It hopes to reduce the car company's debt from Won3,700bn to Won2,900bn by the end of the year hy capital injections through convertible bond issues and asset sales.

This should help to slim its debt burden of 100 times equity at the start of the year to a target of 10 times equity hy the end of 1997. Its debts were Won3,647bn, or 49 times equity, as of April.

"We have been assured of bridging loans from the banks in the meantime," said Mr Choi Myung-ho, the group'e chief financial officer. This will prevent any prospect of a credit crunch for the car company.

Kie yesterday announced a restructuring programme hy offering to sell property assets in return for continued financial support from the government and banks.

Kia is expected to face a difficult period after Daewoo replaced it earlier this year as the nation's second-biggest carmaker. Kia's market share has slipped from 28 per cent in 1996 to 20 per cent this year because of Daewoo's aggressive marketing and improved models.

Despite poor market conditions, Ssangyong believes its new luxury car model, the Chairman, which is launched this autumn, will put it on the road to recovery. "Our investment programme has been largely completed with the introduction of the Chairman. From now on, we're going to make money as we recoup on our investments," said Mr Chang.

Analysts are more cautious about Ssangyong'e prospects. "Given poor industry fundamentals and its weak market position, we expect Ssangyong Motor's losses to continue over the next few years," said a recent report by Dongbang Peregrine Securities in Seoul.

Investors see rosy future for red chip

China Everbright aims to transform itself from a holding company to a financial conglomerate

Gazing out from his harbour-front office earlier this year, Mr Zhn Xiaohua predicted 1997 would be a watershed for his group as well as for Hong Kong. "We will take big steps," said the chairman of China Everbright, the investment arm of China's state council. Just how hig e watershed has surprised even the most hullish of Hong Kong business pundits.

Last week'e announcement that China Everbright IHD-Pacific, a Hong Kong-listed subsidiary, would buy a 20 per cent stake in Everbright Bank from its mainland holding company, was the latest step in an acquisition spree and a milestone in the group'e attempt to create a Hong Kong conglomerate based on financial services.

The HK$2.4bn (US$310m) deal confirmed the group as one of the most dynamic "red chips" – Hong Kong arms of Chinese companies. But as with other red chips, expectations at Everbright have run far ahead of results.

That has implications beyond the returns for international investors, who have driven share prices to heady levels. For the rise of the red chips marks China's attempt to build conglomerates that can compete with Hong Kong's taipans and tycoons, providing funding and expertise for development on the mainland.

In the case of China Everbright, tha conglomerate-building bas been frantic. Last week's deal had been preceded hy other forays into the financial sector, including a 20 per cent stake in the International Bank of Asia and a 5 per cent holding in National Mntual Asia, the insurer.

At the parent company level, China Everbright stunned the Hong Kong market last month with the HK$11.39bn purchase of a 7.7 per cent stake in Hongkong Telecom, one of Hong Kong'e biggest companies.

Few expect the pace to slacken. Mr Zhu, chairman, says: "The company's strategy is to become a broader red chip conglomerate with a focus on the financial sector. The company will consider other acquisition opportunities," he edded.

Last week, rumours rippled around the Hong Kong stock market. Even Hongkong Electric, the heavyweight blue chip, saw its share price rise 11 per cent on reports of an alliance with China Everbright.

Although that rumour was dismissed, investment bankers say Mr Zhn's connections ensure further strategic acquisitions. He is a protégé of Mr Zhn Rongji, China's vice-premier in charge of the economy, and has worked at Xinhua, the state news agency, and the People's Bank of China, where he was deputy governor.

From China'e perspective, China Everbright can be used as a safe pair of hands for sensitive stakes, as in the case of Hongkong Telecom.

Its connections are also drawing foreign businesses that are seeking to expand on the mainland, such as National Mutnal. "They have become a preferred partner, both here and across the border," says one US management consultant.

Funding for expansion is unlikely to be e problem. So far this year, China Everbright's Hong Kong subsidiaries have raised about HK$4bn through share issnes, readily snapped up by investors. An unlisted arm of tbe group holding company is also raising more than US$150m through a floating-rate note.

The enthusiasm of investors and banks might seem surprising, given the group's patchy track record of ill-timed investments in finance and property and its meagre profits. Even China Everbright IHD-Pacific, the most profitahle of the group's three listed subsidiaries, still recorded a net result of just HK$7.43m in the year to the end of March last year.

Investors, however, are driven by potential earnings and expectations of asset injections. Mr Zhu's arrival et the end of last year, with his connections and a salvo of deals, reinforced this optimism. Whether that is justified will depend in part on the terms and the frequency of further asset injections.

Last week's announcement that Beijing's regulators would tighten controls over international company listings raised fears in this respect. But Mr Richard Lo, head of China research at BZW Asia, points out that China Everbright'a connections leave it well positioned to secure approvals. "Red chips with the best relations will benefit," he says.

But success will also depend on Mr Zhu's ability to manage his assortment of assets. The managing director of one Hong Kong investment bank comments: "With a few exceptions, such as Citic Pacific and China Resources, there is little to these companies beyond a list of ill-fitting businesses. Connections alone are not not enough."

The history of China Everbright is a case in point. Its first head was Mr Liu Shaoqi, the brother-in-law of China's former president. He was followed by a senior official from the People's Bank. Neither was able to deliver results or forge a coherent group.

As with Citic Pacific, Mr Zhu appears determined that China Everbright will emerge as more than e holding company. "We believe China will be the largest capital market in the world in the next century and we want to seize the opportunity," he says, outlining plans for expansion in financial services.

To be closer to where the action is, the group has shifted the headquarters of its mainland financial operations from Beijing to Shanghai.

To help win a slice of that action, over the past year, China Everbright has hired senior officials from tbe China Securities Regulatory Commission in Beijing, the head of the Shenzhen branch of the Construction Bank of China and a senior securities official from Shanghai.

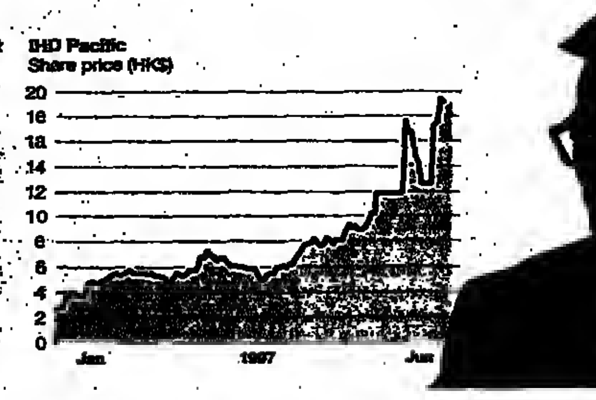
Mr Zhu believes the new blood is needed to shift the group from a holding company to a financial conglomerate. And that shift is necessary if Everbright is to sustain its ascent once the heady days of red chip fever have passed.

John Ridding

Bright prospects

	China Everbright IHD Pacific		China Everbright Int'l		China Everbright Technology	
	1996	1995	1996	1995	1996	1995
Turnover (HK$)	1.54bn	1.42bn	[illegible]	[illegible]	[illegible]	[illegible]
Operating profit (HK$m)	5.6	-5.7	33.2	-21.7	-100.1	-117.6
Net profit (HK$m)	7.4	-7.9	3.6	[illegible]	[illegible]	[illegible]

Source: Datastream, Company



Mr Zhu Xiaohua chairman, China Everbright

European spin-offs help Dickson treble

By Louise Lucas in Hong Kong

Dickson Concepts, the Hong Kong retailer which owns Harvey Nichols of the UK, yesterday reported a trebling of net profits to HK$1.35bn (US$174m) for the year to Marcb 31, boosted by the spin-off of two European operations.

Dickson, which posted net earnings of HK$395.5m the previous year, made an exceptional gain last year of HK$901.1m from the sale of 49.9 per cent of Harvey Nichols and 43.4 per cent of S.T. Dupont, the French luxury goods group.

Stripping out the exceptional gains, earnings per share were up 14.3 per cent, from 145.5 HK cents to 166.3 HK cents.

The company also said it might revise its bid for Barney's, the up-market New York retailer which is under bankruptcy law protection. However, Mr Dickson Poon, chairman, said he considered tbe earlier, rejected, bid to be reasonable and correct.

In addition, Mr Poon said the group was at an advanced stage in negotiations on several other bids across the globe.

Dickson Concepts has expanded aggressively in recent years, turning round shops that were putting in lacklustre performances. One of its latest purchases, the Japanese Seibn department store in Hong Kong, is expected to make a "meaningful" profit contrihution this year.

A second Seibu store will open in Hong Kong in November and is expected to be profitable within its first full year of operation, Mr Poon said.

Mr Poon also forecast greater gains for the group's operations in China, which are now only just breaking even, according to analysts.

"All subsidiaries around the world are operating profitably, and the group is confident of achieving donble-digit profits growth during the current financial year," he said.

A final dividend of 63 HK cents a share is proposed, giving a payout for the year of 99 HK cents, up 20 per cent on the previous year.

● Lane Crawford, the department store company controlled by Wheelock, saw net profits almost double from HK$16.4m to HK$31.4m in the year to Marcb 31, because of an HK$28.9m net gain on the disposal of long-term investments. The result also took into account losses from the closure of etores in Singapore and Hong Kong.

Disappointing maiden year at Harvey Nichols

Shares in Harvey Nichols slipped yesterday, as the London department store and restaurant group controlled by Dickson Concepts disappointed the market with trading figures less buoyant than expected, and annual profits about £1m ($1.65m) below forecasts, writes Peggy Hollinger in London.

The group, reporting pre-tax profits of £12.14m for its first full year as a quoted company, said its flagship store in Knightsbridge, London, was returning sales growth of 3 per cent in the first 10 weeks of the current fiscal year. The shares fell 18½p on the news to close at 284p. Analysts said the results were disappointing given the strong growth last year, wben sales increased more than 20 per cent in the first few weeks.

Mr Clive Morton, finance director, admitted this rate of growth was disappointing but said it was "why we went for a growth strategy outside London". Including the store recently opened in Leeds, in the north of England, Harvey Nichols was showing a 15 per cent cumulative sales increase in the new financial year, be said.

Future growth would continue to come from expanding into other parts of the UK. Mr Morton said the group was close to clinching a third slte, which would be announced in the next two months. The latest store is likely to be in Glasgow or Edinburgh in Scotland, or in Manchester in the north of England.

Sales for the year to March 28 were 27 per cent ahead at £114.2m. The group declared a final dividend of 3.9p, making a maiden total of 5.8p.

ASIA-PACIFIC NEWS DIGEST

Investment bank for Asia launched

A new pan-Asian investment bank was launched yesterday, backed by some of the region's most powerful businesses. Shareholders of KG Investments, which is based in Hong Kong, include the Koos Group of Taiwan and Nippon Life Insurance in Japan. Subject to regulatory approval, these will be joined by the Tong Yang Group of South Korea, the United Overseas Bank in Singapore, the Salim group of Indonesia, the Yuchengcho Group of Companies in the Philippines, and the Bangkok Bank Public Company of Thailand.

The bank is pitched at what the backers see as a void in the market for an Asian-funded investment bank to service companies and higb net worth individuals. So far there is only one fully fledged pan-Asian investment bank with similar credentials: Peregrine Investments, which was founded a decade ago.

Mr Paul Wong, a director of the new venture, said it was only now that a sufficiently large pool of professional labour was evailable in the region. The timing also reflected the stage of development of Asia's capital markets. "Markets throughout the region have developed to such an extent that there is a need for a regional investment bank to service the clients here," he said.

KG Investments will begin with three core areas: asset management, traditional brokerage and derivative structured products. Later it will add corporate finance, direct investment, equity financing and real estate investments. The group did not disclose the initial investment, but said it was sufficient to fund opportunities now on the table, and that the size of the backers meant more could easily be made available as future projects arose.

Louise Lucas, Hong Kong

Austrim bids for listed group

Mr Alan Jackson, the former head of BTR, the UK conglomerate, returned to the takeover scene yesterday when Austrim, the small Australian finance company that he chairs, made a A$60m (US$45m) bid for Hawker Richardson, the listed component supplier. The offer is pitched at A$1.60 a share. Austrim said it intended to raise A$42m to help fund the deal through a placement of 14m of its shares at A$3 each. It already holds 3.6m shares in Hawker Richardson, or about 9.5 per cent of the company's equity.

Hawker told shareholders not to act until directors had considered the situation. Hawker makes ignition products and other components for the car industry, as well as other industrial components. Its shares surged 30 cents, to A$1.65, on news of the offer.

Nikki Tait, Sydney

Thai Farmers warns on profits

Thai Farmers, the country's third-largest bank, warned that net profits this year would be lower than the Bt11.9bn ($457m) reported for last year. Mr Banthoon Lamsam, president, blamed Thailand's economic slow-down for the fall, but declined to say how large the decline would be. The bank recorded a net profit of Bt2.65bn in the first quarter, down 11.7 per cent from Bt3bn a year previously. A consensus of analysts' forecasts puts net profits at Bt11.5bn this year, down 3.4 per cent from 1996.

Lending grew only 3-4 per cent in the first half, making it unlikely the bank would meet its full-year loans growth target of 10 per cent, it said. Thai Farmers said its non-performing loan ratio was likely to rise to 7.4 per cent of total loans at the end of 1997, up from 6.1 per cent at the end of last year. Analysts said commercial banks were caught in a dilemma between raising deposit rates to attract funds while cutting lending rates at the central bank'a request to spur the economy.

AFX-Asia, Bangkok

Hicom profits double

Hicom Holdings, the conglomerate that controls Malaysia'e car industry, reported annual pre-tax profits more than doubled from M$449.4m to M$961.65m (US$382.41m), thanks to strong advances at its Proton and Eon units. Group turnover rose from M$3.58bn to M$6.3bn. Proton and Eon reported profit increases of 126 per cent and 32.4 per cent, respectively. Proton recently signed a distribution agreement with Ventus of Russia, making Russia its 45th export market. Proton hopes for a 1 per cent share of the Russian market by 2001.

Asif Huda, Kuala Lumpur

Financial Times Annual Report Panel Service

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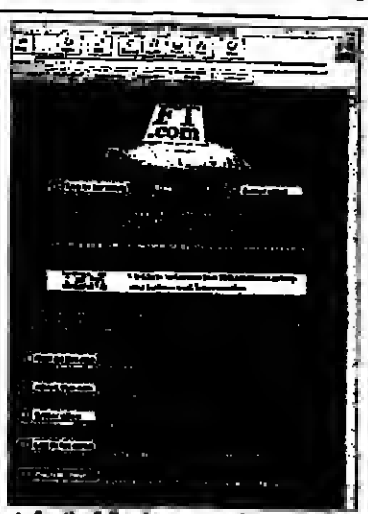

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- SONOCO PRODUCTS
- SR TELECOM
- SWISS EXCHANGE

2

AEGON INSURANCE GROUP

Decisive actions in a world of choice is the theme of AEGON's latest annual report. It has been many years since we have opted for a decentralized organization. Our major markets are The Netherlands, the United States, the United Kingdom, Hungary and Spain. Our emphasis stays on profitability. Insurance and particularly life insurance and the related areas of pension and investment products remain our core business. Last year, these activities accounted for 77% of revenues and an even higher proportion of income. AEGON is one of the world's largest insurers. Net income 1996 totalled NLG 1,568 million (GBP 597 million) and revenues NLG 24,487 million (GBP 9,321 million).

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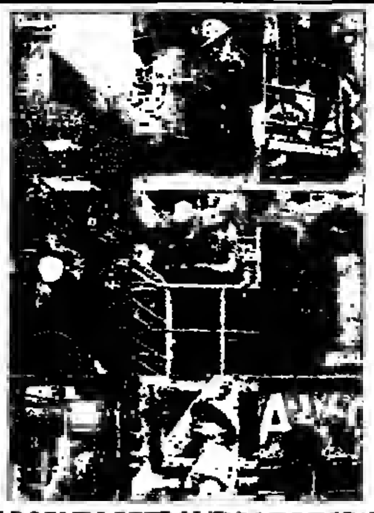
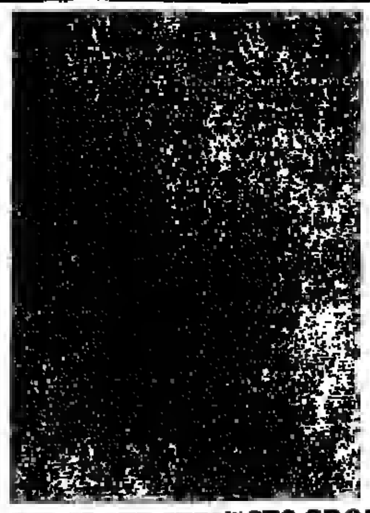


BRITISH-BORNEO PETROLEUM SYNDICATE, P.L.C.

1996 saw British-Borneo, the fast growing oil and gas exploration and production company, transform itself into one of the leading independents operating in the deep water province of the Gulf of Mexico, perhaps the most exciting exploration area in the world today. This year, the Company has embarked on its most ambitious exploration and appraisal drilling programme to date both in the Gulf of Mexico and in the UK North Sea.

4



THE CORPORATE SERVICES GROUP PLC

The Corporate Services Group PLC is a leader in the field of contract labour, temporary labour, facilities management, training and the supply of healthcare professionals. The Group has an emphasis toward personnel with higher professional and vocational skills. Turnover for 1996 was £277 million - an increase of 107% on 1995 due to organic growth and strategic acquisitions, including Blue Arrow Holdings Ltd, a leading provider of catering employment services and Medacs Healthcare Services PLC, a supplier of doctors primarily to the NHS. A continued commitment to expansion and a substantial investment in its 2,500 employees will, it is predicted, ensure the Group achieves continued success into the new millennium.

5

MINORCO

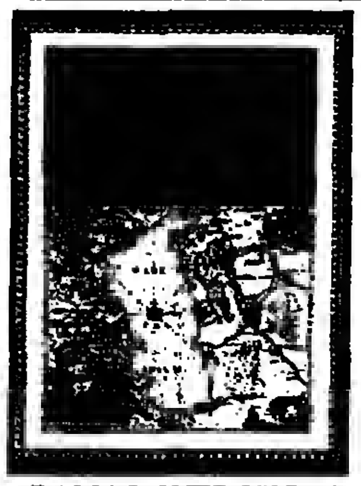
Think of a global natural resources group. Think of one with 23,000 employees and a market capitalisation of US$5 billion. Think of gold and base metals mines in North and South America and a major industrial minerals business in Europe. Think of important paper and packaging interests and a growing US agribusiness. Then think of the six major mining projects which will ensure this group's growth well into the next millennium. Think MINORCO.

6

PEARSON PLC

Pearson plc is an international media group with interests in publishing, television production, broadcasting, electronic and multi-media businesses. The Group focuses on three key markets worldwide: information, education and entertainment.

7



RAMCO ENERGY PLC

Ramco Energy plc is an independent energy company focused on the E&P of oil and gas in the FSU. The Company is the largest on AIM (market capitalisation > £250 million) and became the first Scottish company to be listed on the American Stock Exchange in March 1997. Ramco played a founding role in the formation of an international consortium of major oil companies (AIOC) which is developing the 5 billion barrel ACG Field in the Caspian Sea. Ramco's 2.0825% interest in this project is carried by Pennzoil. First production is expected later this year. Ramco is pursuing opportunities in Georgia, Kazakstan, Russia and Azerbaijan and retains a successful oil services operation.

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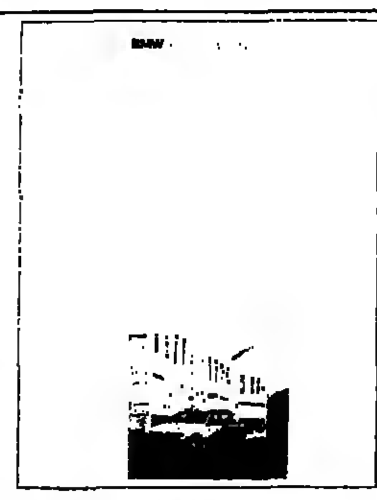

BMW

BMW GROUP DEVELOPS DYNAMICALLY

In 1996, deliveries of new BMW cars to customers increased by 54 000 to 644 100 units and thus achieved a new high. The BMW motorcycle business set a new record. With 507 000 units, deliveries of Rover Group vehicles had not been as high since 1988. The Company's dynamic character and innovative strength were shown by the new 5 Series BMW and the Z3 Roadster. Demand for both models by far exceeded their original targets. With deliveries of more than 50 000 7 Series cars to customers, the large saloons continued to be successful worldwide. With the new plant in the United States, BMW also became part of the North American car industry. At Rover Group, projects to prepare new models and improve the sales organisation in numerous foreign markets advanced according to schedule. The Group's income and financial position continues to be sound. Earning power was strengthened.

9

CONTINENTAL AG

The Continental Corporation is a leading international manufacturer of tires and industrial products made from rubber and plastics, and has been developing complete automotive systems with growing success since 1994. It is the leading tire manufacturer in Germany, second in Europe and fourth worldwide. Celebrating its 125th anniversary in 1996, Continental reported another rewarding year: sales advanced to DM 10.4 billion, and net income jumped 24% to DM 192.5 million, reflecting substantial innovation and restructuring measures in recent years to boost long-term profitability. The dividend increased from 10% to 12% (0.60 per DM 5 nominal share). The outlook for 1997 is for another significant increase in earnings.

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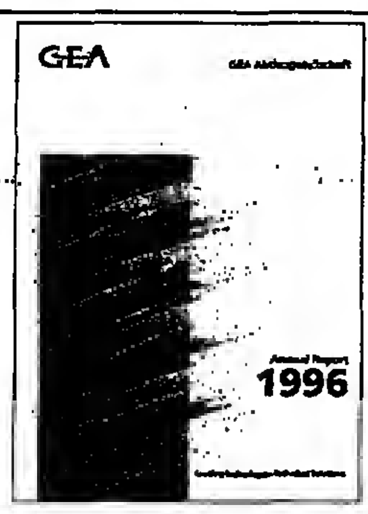

GEA AG

Consolidation on a High Level

GEA AG of Bochum, Germany, is a global technology group specializing in the fields of process technology, thermal and energy technology as well as air treatment and refrigeration. Following a period of strong growth with major corporate acquisitions, 1996 had been designated as a year of consolidation. Nevertheless, orders received and sales rose by about 7%, reaching new record highs of DM 4.4 and 4.3 billion respectively. Net income declined by about 5% to DM 106 million. It was adversely affected by, among other things, restructuring expenses. A significant increase is anticipated for 1997.

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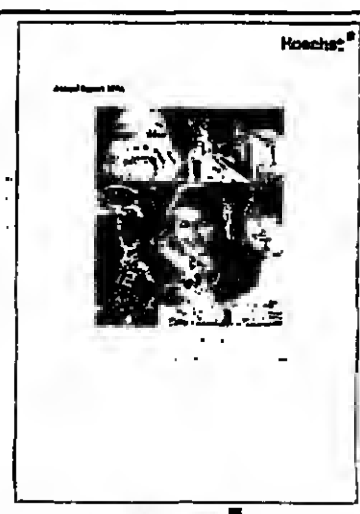
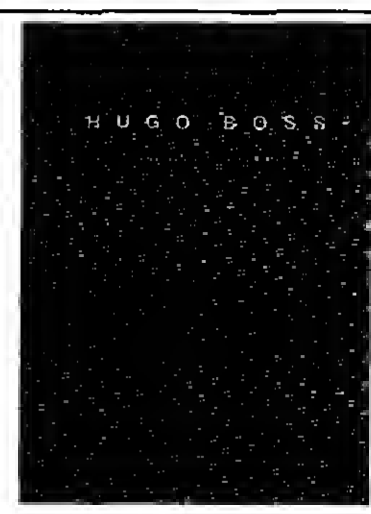


Hoechst

Hoechst is an international group of companies with more than 140 000 employees, spearheading innovation in Life Sciences and Industry. The 1996 sales amounted to DM 50 927 million. Profit after taxes on income was DM 2 774 million, 24% more than in the previous year. Hoechst AG's dividend was increased by DM 0.10 to DM 1.40 per DM 5 share. In the first quarter of 1997, Group sales increased by 1% to DM 13 158 million. Profit before taxes on income of the Hoechst Group totalled DM 831 million, on a comparable basis, it is 9% higher than in the previous year. The 1996 annual report and the report on the 1st quarter of 1997 can be obtained via reference number 39.

12



HUGO BOSS

The name HUGO BOSS represents an international, growth-orientated group of companies and one of the leading brands of men's clothing in the world. With its key brand BOSS Hugo Boss, the unconventional HUGO Hugo Boss brand, and the BALDESSARINI Hugo Boss brand for the exacting customers, HUGO BOSS is a major contributor to the international fashion scene. Sales development at HUGO BOSS outpaced overall economic development. Group sales in the previous fiscal year increased 10.5% to 995.3 million DM, thereby further strengthening the company's market position. The net profit of the largest German men's clothing company increased by 31.2% to 76.1 million DM in 1996. The growth in sales was spearheaded by international business. Outside Germany, sales increased by 13.9% to 636.9 million DM.

13

KME

KM Europa Metal AG (KME) is the world's largest processor of copper and copper alloy products. A member of Italy's SMI Group, the business was founded in 1995 as a result of the amalgamation of Europa Metalli in Italy, Tréfimétaux in France, together with KM-Kabelmetal and its subsidiaries in Germany. KME's profits before tax rose by 19% for the year ended 31 December 1996, to DM 119 million, on a turnover of DM 3,804 million. KME is listed on the Frankfurt stock exchange. Following restructuring since 1995, KME has established a Europe-wide divisional management structure which is already producing significant financial benefits for the business. Further improvements are expected.

14

SCHERING

Schering is a research-based pharmaceutical company with around 140 subsidiaries and affiliated companies worldwide. Our key features today are internationality, expertise and specialization on three business areas - diagnostics, gynaecology and therapeutics.

Main Financial Data: With a workforce of 19,705, Schering Group sales in 1996 amounted to DM 5,272 million, 85% of which were achieved outside Germany. Schering spent DM 949 million on research and development, which is 18% of Group sales revenue. At DM 362 million, Group profit was 46% higher than in 1995. Earnings per DM 5 share as per IAS amounted to DM 5.30 (1995 DM 3.60).

15

VEBA

VEBA, the world's largest utility-based conglomerate, is active in the fields of Electricity, Chemicals, Oil, Trading/Transportation/Services and Telecommunications. Our decentralized management structure is designed to allow for fast and flexible response to global market opportunities as they arise, and our 1996 results underscore this approach: approx. 122,000 employees worldwide achieved record DVFA/SG earnings of DM 2.5 billion (1995: DM 2.1 billion), earnings per share rose from DM 4.33 to DM 5.04, and the dividend was increased from DM 1.70 to DM 1.90. The further internationalization of VEBA is a major challenge we have targeted to enhance the value of our Company for all our shareholders the world over.

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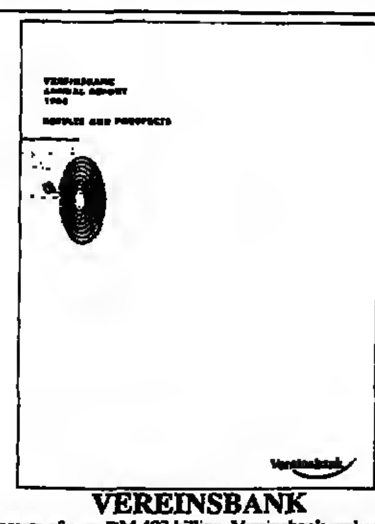

VEREINSBANK

With total assets of over DM 403 billion, Vereinsbank ranks as Germany's fourth largest private bank. In 1996 operating profit after risk provision increased by +18.4% to DM 1,636 Mio. The main stimulus for this result was a healthy mortgage business, as evidenced by the growth in new mortgage loan commitments of +15.6%, or DM 43 billion. Growth in net commission income of 14%, coupled with level growth in administrative costs of 5,8% (6% in 1995), led to improved profitability for the group, as reflected in the increased ROE after tax of 8.6% (7.1% in 1995) and increased Earnings Per Share (DVFA) of DM 2.83 (DM2.52 in 1995). Dividends paid to shareholders were DM 1.60 (DM 1.50 in 1995).

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COMPANIES AND FINANCE: UK

Former British Gas supply arm tackles onerous long-term agreements with North Sea producers

Centrica aims for contract settlements

By Jane Martinson

Centrica, the gas supply business demerged from British Gas, is aiming to settle almost a third of its onerous long-term gas supply contracts with North Sea producers within the next 12 months.

The group said yesterday it planned to renegotiate terms on "take or pay" contracts covering the purchase of some 25bn therms – out of a total of 88bn therms – before the scheduled beginning of competition in the gas market next April. The contracts commit the company to buying gas it no longer needs at a price well above market rates.

Mr Roy Gardner, chief executive of Centrica, said the group was "working on six deals where we believe we can reach a conclusion in the next six to 12 months". He added that negotiations for "two or three" were "well advanced".

The group would not be drawn on which producers were involved in the negotiations.

Centrica's upbeat perspective on the issue appeared to be at odds with the view of some of the largest North Sea producers, which have denied any recent contact with the company.

Analysts said yesterday that any comprehensive solntion would need to involve Shell and Esso, two of the largest producers with which Centrica has outstanding contracts.

Since its demerger was announced at the end of last year, Centrica has renegotiated contracts with two of its largest suppliers – BP and Mobil. Mr Gardner said yesterday that the group wanted to "do at least one more Mobil" before the end of 1997.

British Gas made a £341m ($562.65m) charge to cover the cost of renegotiating a take-or-pay gas contract with Mobil. One analyst said yesterday that a renegotiation of some 25bn therms could cost a further £875m, on the basis of Centrica's own estimates of gas prices for 1998. However, because the charge will take effect over a number of years any balance sheet impact will be significantly less than this figure.

Centrica also said yesterday that it was ready to take part in the electricity market when it is liberalised next April. Just three regional electricity companies have so far been identified by the industry regulator as ready for competition. Centrica aims to compete nationwide.

It shares rose 2½p to 71½p yesterday, bucking the market trend, and after a strong performance on Friday. Shares in Centrica have underperformed the market since its demerger chiefly because of the uncertainties over take-or-pay contracts and the onset of competition in the domestic market.

WH Smith loses chief executive to BT

By Peggy Hollinger, Alan Cane and Christopher Price

WH Smith shares fell to a two-year low yesterday as the high street retailer announced the surprise departure of its chief executive, Mr Bill Cockburn, after only 18 months in the post.

Mr Cockburn, who joined with a brief to revitalise the chain of WH Smith stores in the face of aggressive competition from specialist retailers and supermarkets, is to become group managing director at British Telecommunications.

His abrupt departure has sparked concern abont the potential for recovery at WH Smith among investors and analysts. The group, which in addition to the high street chain owns Waterstones, Virgin Our Price and a news wholesaling business, last year recorded its first loss in more than 200 years.

"The timing is immacnlate," said Mr Sean Eddie, retail analyst with NatWest Markets. "The cost reductions he has implemented are beginning to run out and the sales line is refusing to move forward . . . It is the end of the recovery."

"The timing is unfortunate," added one institutional investor. "WH Smith is going through a process of change and that process is at an important stage."

Its shares, which have underperformed the retail sector by some 20 per cent since Mr Cockburn joined in January last year, tumbled 35p to close at 376p, their lowest since October 1996.

However, Mr Jeremy Hardie, chairman, insisted there were "no dirty secrets" behind the departure. "Bill is going for a knock-out job. He would not be leaving if there were anything amiss."

Mr Cockburn said he had been approached out of the blue by Sir Peter Bonfield, BT chief executive, with the "offer of a lifetime".

He, too, insisted that his departure should not affect investors' views of recovery potential at WH Smith. "When you see the results they will represent a further big step in the right direction." However, he admitted the revival of the core retail business was far from complete. "We said from the outset it would take a number of years to come through."

Mr Hardie said he was aware that investors were concerned about the implications of Mr Cockburn'a departure. To mitigate fears, the group said it expected pre-tax profits for 1996-97 to meet expectations of between £124m and £130m.

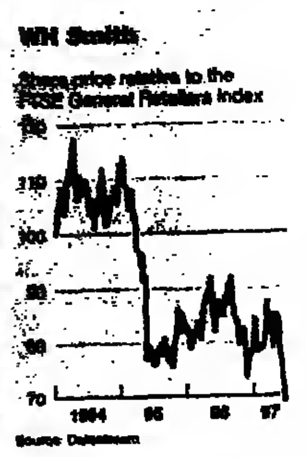
Analysts said that while there were strong internal candidates for the post – such as Mr Keith Hamill, finance director – investors would prefer to see a retailer take on the job.

British Telecommunications, whose plans to merge with MCI of the US are at an advanced stage, said it was delighted that Mr Cockburn was joining the company but refused to confirm the job would still be available if the merger failed.

Bill Cockburn: 'would not be leaving if there were anything amiss' Eye Catchers Press

LEX COMMENT

WH Smith



What sort of future does WH Smith face? This oft-asked question acquires renewed currency with news of Mr Bill Cockburn's surprise departure. In itself, a new chief executive may not be a bad thing: there is a strong case for WH Smith having a true retailer at the helm. Mr Cockburn has made good progress, slimming the portfolio and galvanising the culture. But the key challenge – boosting sales and margins in the high street chain – requires an imaginative retail solution which others are probably better-placed to deliver. It is a tall order. Certainly, comparisons with Boots look extremely optimistic: the capacity to develop high-margin, own-brand products in books, magazines and records is virtually non-existent. Meanwhile, supermarkets continue to snipe away at WH Smith in all these areas. And Mr Cockburn's response – broadening the product range – looks misconceived. The way to compete is through differentiation and superiority of offer, which requires more, not less, space devoted to core products. Anyway, WH Smith's problem is not a shortage of visitors, but a shortfall in their spending. Selling ice-creams is hardly the answer.

At a 20 per cent discount to the market, the shares look cheap – but likely to stay that way. Bid talk is inevitable, but the risks and complexity of the group are likely to deter most suitors. More probably, shareholders will have to rely on Smith's own efforts to rescue the share price. They will need to be patient.

Compass makes FFr2.2bn acquisition

By Scheherazade Daneshkhu

Compass, the acquisition-led contract catering group, yesterday consolidated its position in the French food service market by paying FFr2.2bn ($375m) cash for SHRM, the fourth largest group.

The acquisition of 93 per cent of the privately owned SHRM still leaves Compass as the third largest group in the French contract catering market after GDR and Sodexho but lifts its market share from 12 per cent to 19 per cent.

Mr Roger Matthews, Compass managing director, said the acquisition would increase the group's share of the rapidly growing French healthcare and education sectors in which SHRM plays a large part.

Compass would also gain a foothold in Canada and Australia for the first time, countries which account for 20 per cent of SHRM's turnover.

The company issued £220m of convertible bonds last night to finance the acquisition. It ruled out a share issue.

Compass said it would purchase the remaining 7 per cent of SHRM, held by the management, within a few months on similar terms to yesterday's acquisition.

The group also said yesterday that it had agreed the sale of its 11.17 per cent stake in Générale de Restauration back to Compagnie Générale des Eaux at a profit.

Compass took the stake for a total of FFr247m, payable in instalments, in January.

It said at the time that it hoped eventually to acquire the whole company.

Mr Matthews said that the SHRM opportunity had not come up when it took that stake. Moreover, the management of Générale de Restauration, the majority shareholder, had made it clear since then that it did not want to relinquish control.

SHRM made pre-tax profits of FFr129.5m last year on turnover of FFr3.9bn. On a pro forma basis, including the full-year impact of businesses acquired by SHRM last year, pre-tax profits were FFr164m on turnover of FFr4.2bn.

Compass' shares dropped 15p to close at 702p. However, despite paying a hefty 14.5 times profits before interest and tax for the total purchase price, the company has struck a deal which makes strategic sense.

Net debt rises to more than £830m as a result of the acquisition and interest cover will fall to 4 times this year and 3.7 times next year. With pre-tax profits forecast at £160m for the year to September 1998, the shares are trading on a forward p/e of 20 times.

WMI sells bulk of French side

By Jane Martinson

Waste Management International, the US-controlled waste disposal company, has sold the bulk of its French operations for a total of FFr651.3m ($111.9m) as part of a retrenchment in continental Europe.

Sita bought WMI's French operations, which serve municipal, industrial and commercial clients, for FFr270m in cash.

The company, a subsidiary of Lyonnaise des Eaux, the French utilities group, is set to pay a further FFr55m within three years and FFr326.3m in promissory notes. It will also take on inter-company debt of FFr326.3m.

Mr Peter Dessing, WMI finance director, said the company had decided that it was too small to compete in France, which is dominated by larger groups.

He said the net impact on WMI's finances would be neutral. The group revalued its assets last year as part of a review which led to its decision to pull out of France, Austria and Spain.

Abont half of an exceptional fourth quarter charge of £127.7m related to the company's French assets, said Mr Dessing.

WMI is now the only separately traded subsidiary of Waste Management, the US group which holds an 80 per cent stake in the UK-based company.

Speculation has mounted about the parent group's plans for WMI. But Mr Dessing said yesterday that indications from reports last week were that the group "had indefinitely postponed thinking about it".

"At this point we assume they are going to keep it," he added.

At the end of last year, the net value of the assets sold yesterday were FFr129.1m. The operations reported pre-tax profits of FFr12.6m on sales of FFr327m in the period.

WMI will retain a 50 per cent holding in Auxiwaste Services, which operates a materials recovery and fibre fuel plant in central France.

Departure at Standard Life

By Christopher Brown-Humes and William Lewis

The ambitions of Standard Life, the UK's largest mutual life assurer, to become a big player in UK fund management, suffered a blow yesterday when it parted company with its chief investment manager for the second time in a year.

Mr John Thomson's resignation came just 11 months after he took over from Mr Dick Barfield. The insurer blamed "management differences". Insiders, however, said his departure was mainly caused by a row about splitting off all, or part, of its fund management division into a stand-alone company.

Mr Thomson, 47, is expected to leave by July 15, after completing the handover to his successor, who has yet to be appointed. Standard Life said he was on one month's notice and would receive no compensation.

Mr Sandy Crombie, chief investment manager, said the departure was linked to "differences over management issues rather than over strategies or objectives".

Standard Life has £52bn ($85.8bn) under management and owns shares equivalent to about 2.2 per cent of the UK stock market. It has been placing more emphasis on managing funds on behalf of third parties, although this business only accounts for £3bn of total managed funds.

Mr Crombie said: "We have made it quite clear we are going to build fund management to compete with dedicated fund management companies" such as Mercury Asset Management and Schroder Investment Management.

Some senior Standard Life executives want to see the establishment of a fund management snbsidiary which would be run on an arms-length basis. "Some of us think it would improve performance, incentives and help bring in more third party business," one said.

Consultants said yesterday that most life companies were examining whether to set up stand-alone fund management arms. Scottish Amicable, recently taken over by the Prudential, already has one.

However, disagreement about setting up a stand-alone business is thought to be only one of the reasons for Mr Thomson's departure.

Mr Thomson, who joined Standard Life in 1982, was unavailable for comment.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Dividends: Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Adare Printing ₤	Yr to Apr 30	115.9	(70.1)	10.9♥	(7.76♠)	69.33	(53.38)	4.479	Aug 7	2.986	7.598	5.065
AEA Technology	Yr to Mar 31	264.1	(253.3)	18.5♠	(15.8♠)	15.5	(19.8)	5.85	Oct 1	-	8.4	-
Allen	Yr to Mar 30	153.5	(109)	10.5	(7.86)	18.81†	(16.33)	4.7#	June 30	4.15	7.5	8.85
Harvey Nichols	Yr to Mar 29	114.2	(90.2)	12.1	(9.16)	14.9	(10.8)	3.9	Aug 27	-	5.8	-
Highams Systems Φ	Yr to Mar 31	16.4	(13.2)	0.879	(0.899)	7.2	(7.2)	-	-	-	-	-
Lonrho	6 mths to Mar 31	1,011	(1,035)	22♠	(60♠)	0.3	(4)	2.25‡	Oct 1	2.25	-	5.25
TBI	Yr to Mar 31	95.8	(35.4)	19.1♥	(10.1♥)	4.22†	(3.57)	1.5	Oct 1	1	1.5	1
Weeks Φ	Yr to Mar 31	12.7	(11.8)	1.03♠	(0.729)	0.5	(0.45)	0.06	Aug 1	-	0.1	0.09
Whitecroft	Yr to Mar 31	145	(143.3)	3.32♠	(8.08)	5.3	(14.1)	3.25	Aug 11	3.25	5	5
Yorkshire Food	Yr to Dec 31	159.8	(174.4)	26.3L♠	(5.91)	55.3L	(10.47)	nil	-	3	0.88	3.88

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Bankers	6 mths to Apr 30	245.5	(231)	4.1	(4.6)	2.65	(2.96)	1.25♦	Aug 30	1.13	-	4.66

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ₤Irish currency. ♠After exceptional charge. ♥After exceptional credit. #Second interim in lieu of final. †On increased capital. ΦAim stock. ‡Pay-outs include foreign income dividend elements. ♦Second interim; makes 2.5p to date.

INTERNATIONAL CAPITAL MARKETS

Hopes for broad Emu bolster Italy

GOVERNMENT BONDS

By Edward Luce in London and John Labate in New York

Italian government bonds continued their recent upswing yesterday, buoyed by the release of data showing subdued inflation, and hopes of a cut in interest rates. Markets in the rest of Europe and the US lacked direction, with low turnover in most benchmark contracts.

The consumer price index figures for leading Italian cities showed inflation in June dropping by 0.1 per cent to 1.5 per cent – an unprecedented low.

Analysts, however, said that continued expectations of a broad Emu spawning a "soft" euro were behind the continued rally in BTPs. Spreads on Italian cash bonds tightened through the 120 basis points (over bunds) barrier for the first time yesterday morning before widening again to a spread of 122 basis points.

"Italian spreads will probably narrow down to 100 basis points before deconvergence plays set in again," said Mr Julian Jessop, chief European economist at Nikko Europe in London. "Italy will continue to benefit from any talk of a broad Emu."

Commentators were divided on whether Italy would cut repo rates from the steep 6.75 per cent prevailing rate. The market has been surprised at the Bank of Italy's reluctance to ease the high interest rate burden to help ease the government's heft debt interest bill.

"It is anybody's guess what the Bank of Italy is thinking," Mr Jessop said. The contract on 10-year BTPs rose by 0.15 points to close at 133.46 on Liffe.

SPANISH BONOS also rose, although the spread on casb bonds continued to widen over bunds after the rally in the last fortnight. Speculation that the Bank of Spain would also cut repo rates by 0.25 per cent at the monetary policy meeting today has diminished since the release of strong Spanish wage growth figures in the first quarter.

With rates well below Italy's and mixed signals from macroeconomic data, most forecasters expect them to be left unchanged. The contract on September bono futures close 0.7 up at 116.40 in Barcelona.

UK GILTS continued to drift downwards in advance of the Labour government's first budget next week. Economists doubted whether even a fiscally tight budget would eliminate the need for interest rate rises.

Rumours that the Bank of England would in future increase base rates by 50 basis point increments did little to lift sentiment.

"A fiscally tight budget and a weak pound would probably encourage another rally in gilts and tempt some Japanese funds back into sterling," said Ms Alison Cottrell, international economist at PaineWebber in London. Gilt futures fell by $\frac{1}{16}$ to close at $113\frac{1}{16}$ in London.

FRENCH OATs also drifted, with little to determine market sentiment on the French government's deficit-cutting plans. Economists said there were little economic data due in either Germany or France to move the markets before their mini-budgets later in the summer.

OAT futures closed up 0.6 at 128.68 in Paris while GERMAN BUND futures dropped 0.4 to close at 101.32 in London.

US TREASURIES were little changed in subdued morning trading. The 30-year bond fell ⅛ to 99[illegible], yielding 6.666 per cent. The 10-year bond fell $\frac{1}{16}$ to 101¾, to yield 6.374 per cent, while two-year bonds fell $\frac{1}{32}$ to 100[illegible], yielding 6.005 per cent.

"We're looking for what could drive the market away from its current assumptions, including the currently benign inflation outlook," said Mr Larry Dyer, of Credit Suisse First Boston.

Data releases this week will focus on consumer sentiment when the Conference Board releases its monthly consumer confidence figures today and the University of Michigan publishes its own findings on Friday.

The "jobs plentiful" outlook within the Conference Board's figures could be especially helpful to analysts, said Mr Dyer. A trend upward could signal tighter labour markets and the possibility of higher wage inflation to come.

Some morning selling was due to the market's anticipation of two new Treasury issues this week. On Tuesday $15.5bn of two-year notes will be issued and on Wednesday $11.5bn of five-year notes will hit the market.

Koor's $300m Yankee deal postponed

By Judy Dempsey in Jerusalem

Koor Industries, Israel's largest industrial group, yesterday said that it was postponing its planned bond offering because of recent changes in the country's exchange rate mechanism. Instead, it may consider a bond issue in Tel Aviv.

The $300m offering was planned as a Yankee bond – a dollar-denominated bond issued in the US by foreign borrowers. It had been scbeduled for next mooth, and the funds raised through the offering would have been used to acquire international companies linked to Koor's core businesses, which include telecommunications, electronics, chemicals and construction.

"In light of the recent changes in Israeli government monetary policy, there is an uncertainty at this time to the economic feasibility and the risk associated with an offering by Koor in the US in comparison with the possibility of obtaining long-term financing in shekels in Israel," the company said yesterday.

Koor said the reforms in the exchange rate mechanism had increased the risk associated with issuing foreign currency bonds.

"As a result, the process of preparation for a Yankee bond offering has been postpooed," the spokesman said.

Koor has already embarked upon an ambitious strategic plan aimed ot raising revenues to $5bn by 2000 through developing new products and internationalising its operations. In 1996, the company's net profits rose 8.4 per cent to $180.8m on sales of $3.53bn.

The changes in the mechanism, spearheaded by the Bank of Israel – the country's central bank – involved widening the shekel's exchange rate bands to enable the rate to respond more readily to market forces and capital flows to and from Israel.

Within a year, the bands will be widened to plus or minus 15 per cent around the mid-point rate, compared with the current plus or minus 7 per cent. Economists said there was some concern the changes would increase the risk of a depreciation of the shekel.

The changes also coincided with a decision by the bank to lower interest rates by 1.2 perceotage points, bringing the base lending rate to 12.7 per cent.

High interest rates as well as the volatility of the shekel had forced many Israeli companies to borrow abroad to fund loans.

Ms Debra Kodish, analyst with Zannex Securities, said that now the US dollar was rising and interest rates in Israel were falling, companies could be persuaded to issue debt oo the local market. Yesterday, the representative rate for the dollar was fixed at Shk3.4840, against Shk3.4370 on Friday.

"Maybe Israeli companies will now start exploring the opportunity of raising loans here," said Ms Kodish.

Two otber companies, Bezeq and Israel Electric, the state-owned telecommunications network and utility respectively, intend to raise debt outside Israel later this year.

Swedish housing group raises $500m

INTERNATIONAL BONDS

By Andrew Taylor and Edward Luce

The eurobond market paused for breath yesterday after last week's mad rush. Less than $2bn was raised from a small number of issues – and the market appears to be suffering from indigestion following the large number of recent long-dated dollar issues.

The biggest offering yesterday was a five-year $500m issue by SNHFC, the Swedish National Housing Finance Corporation, owned by the Swedish government and the country's third largest mortgage bank.

The issue, priced at par and re-offered to yield flat to the London interbank offered rate, was regarded as over ambitious in spite of its AA/A1 credit ratings. The bond widened to Libor plus 3 basis points in secondary trading.

Investors have an option to sell the bonds back at par should the Swedish government decide to reduce its stake below 51 per cent.

Nikko and SBC Warburg yesterday led a two-year £125m sterling bond for the WORLD BANK at 5 basis point above three-year gilts. The lead managers said the recent spate of dollar bonds had left room for a good quality issue in sterling.

They said they expected the issue to be attractive to European bank investors but that the fine pricing was less likely to appeal to retail investors.

SBC Warburg also led a four-year DM300m bond issued by CREDIT LOCAL DE FRANCE, a leading municipal lender.

The bonds were re-offered at a coupon of 4.375 per cent to yield 12 basis points more than the five-year German government bond. Syndicate managers said a D-Mark bond issue of less than five years maturity was unusual. The relatively wide epread reflected the need to match the higher yields currently obtainable on dollar bonds.

The City of TOKYO announced its first French franc issue: FFr1.7bn of 10-year bonds. Lead manager IBJ re-offered the issue at 12 basis points above the comparable OAT.

It was only the third Freoch franc-denominated bond this year by a Japanese organisation, said IBJ. It said borrowing costs, expressed in dollars, were less expensive in France than other countries while the French had proved stable investors.

BENETTON gave retail investors something to chew over with its first ever eurobond. The L500bn offering was priced to yield 12.5 basis points over BTPs. An official denied pricing on tbe unrated paper was tight but admitted competition to win the mandate was "very fierce".

Strong retail buying was reported in Italy, Switzerland and the Benelux region and some institutional demand from the UK.

BGB, the German finance house, offered a two-year eurobond priced to yield 10 basis points over US Treasuries. An official at BZW, lead manager, said it was popular with retail buyers.

The markets are expected to hot up later in the week with a series of emerging market issues coming on stream. Among others, Brazil plans a 10-year sterling bond and Jamaica a $100m offering.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Swedish Natl Housing(a)‡	500	(a)	100.00R	Jun 2002	17.50R	-	UBS
BGB (Ireland) plc	200	6.125	99.875R	Jul 1999	0.125R	+10(6¼%-99)	BZW
D-MARKS							
Credit Local de France	300	4.375	99.953R	Jul 2001	0.225R	-	SocGen Fkt/SBC Warburg
STERLING							
World Bank(j)	125	7.00	99.71R	Aug 1999	0.125R	+5(6%Aug99)	Nikko/SBC Warburg
FRENCH FRANCS							
City of Tokyo	1.7b	5.75	99.846R	Jul 2007	32.50R	+12(i)	IBJ France
SWISS FRANCS							
Schig	150	3.625	102.55	Jul 2007	2.75	-	CSFB
ITALIAN LIRE							
Benetton Group SPA‡	500b	(b)	100.00R	Jul 2002	0.175R	-	IMI Bank/JP Morgan Sec
AUSTRALIAN DOLLARS							
State Bank of NSW(s)	100	6.50	101.24	Dec 2002	2.00	-	Toronto Dominion

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. ‡ Floating-rate note. R: Fixed re-offer price; fees shown at re-offer level. a) 3mth Libor flat. b) 3mth Libor +12.5bp. i) Over interpolated yield. j) Long 1st coupon. s) Short 1st coupon.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		10.000	10/07	121.7470	+0.150	7.00	6.98	7.77
Austria		5.750	04/07	98.8900	-0.040	5.90	5.85	5.70
Belgium		6.250	03/07	103.0300	-0.150	5.83	5.76	5.78
Canada *		7.250	06/07	106.6600	+0.800	6.08	6.16	6.54
Denmark		7.000	06/07	104.4500	+0.050	6.39	6.16	6.24
France	BTAN	4.750	03/02	100.4962	-	4.83	4.58	4.60
	OAT	5.500	04/07	98.8200	-0.150	5.66	5.56	5.54
Germany Bund		6.000	07/07	102.1600	+0.170	5.71	5.68	5.66
Ireland		8.000	08/06	109.8000	-0.030	6.54	6.52	6.53
Italy		6.750	02/07	99.3700	+0.160	6.84†	6.94	7.13
Japan	No 145	5.500	03/02	116.7524	-	1.68	1.61	1.82
	No 182	3.000	09/05	104.1967	+0.030	2.39	2.38	2.54
Netherlands		5.750	02/07	101.0000	-0.060	5.61	5.55	5.58
Portugal		8.500	02/06	120.9600	-0.040	6.28	6.27	6.39
Spain		7.350	03/07	106.7200	+0.070	6.39	6.35	6.50
Sweden		8.000	08/07	108.9374	-0.160	6.75	6.76	6.94
UK Gilts		7.000	06/02	99-15	-8/32	7.13	6.90	6.85
		7.250	12/07	100-18	-10/32	7.17	7.02	6.95
		8.000	10/08	113-18	-10/32	7.22	7.08	7.01
US Treasury *		6.625	05/07	101-25	+1/32	6.38	6.40	6.64
		6.625	02/27	99-17	+1/32	6.66	6.70	6.87
ECU (French Govt)		7.000	04/06	107.0600	-0.010	5.84	5.84	5.88

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: Standard & Poor's MMS.

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	6.00
Prime rate	$8\frac{1}{2}$	Two month	-	Three year	6.15
Broker loan rate	$7\frac{1}{4}$	Three month	5.09	Five year	6.29
Fed.funds	$5\frac{7}{16}$	Six month	5.27	10-year	6.39
Fed.funds at intervention	-	One year	5.65	30-year	6.67

BOND FUTURES AND OPTIONS

France

NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	128.74	128.66	+0.04	128.82	128.44	63,902	195,145
Dec	97.52	97.30	-0.08	97.52	97.14	142	1,995
Mar	96.92	96.70	-0.08	96.92	96.92	2	-

LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	Calls Jul	Calls Aug	Calls Sep	Puts Jul	Puts Aug	Puts Sep
126	2.67	2.78	2.92	0.01	0.13	0.28
127	1.67	1.92	2.12	0.01	0.27	0.47
128	0.72	1.18	1.43	0.06	0.52	0.77
129	0.09	0.60	0.86	0.43	0.94	1.20
130	0.01	0.25	0.45	1.35	-	-

Est. vol. total, Calls 7,563 Puts 13,602. Previous day's open int., Calls 141,619 Puts 172,505.

Germany

NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	101.42	101.28	-0.04	101.46	101.08	154927	239930
Dec	100.30	100.34	-0.03	100.30	100.20	4550	5139

BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
10100	0.28	0.77	1.01	1.08	0	0.49	0.73	1.74
10150	0	0.50	0.74	0.87	0.22	0.72	0.96	2.03
10200	0	0.31	0.52	0.69	0.72	1.03	1.24	2.35

Est. vol. total, Calls 12212 Puts 12338. Previous day's open int., Calls 180387 Puts 251632

Italy

NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	133.40	133.46	+0.15	133.58	132.97	51365	92594
Dec	-	106.11	+0.20	-	-	0	270

ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	Calls Sep	Calls Dec	Puts Sep	Puts Dec
8000		26.11		0
8050		25.61		0
8100		25.11		0

Est. vol. total, Calls 2021 Puts 2970. Previous day's open int., Calls 62684 Puts 67282

Spain

NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	116.44	116.40	+0.07	116.50	116.06	69,657	89,632
Dec	-	99.86	-	-	-	1	1

UK

NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jun	113-14	113-18	-0-10	113-18	113-14	70	1018
Sep	113-16	113-06	-0-10	113-16	112-31	38854	160626

LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	Calls Jul	Calls Aug	Calls Sep	Calls Dec	Puts Jul	Puts Aug	Puts Sep	Puts Dec
113	0-12	0-62	1-24	1-62	0	0-50	1-12	2-10
114	0	0-33	0-57	1-34	0-62	1-21	1-45	2-46
115	0	0-16	0-38	1-11	1-52	2-04	2-26	3-23

Est. vol. total, Calls 5325 Puts 1805. Previous day's open int., Calls 41344 Puts 26297

Ecu

ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	95.50	95.50	+0.04	95.52	95.36	1,455	4,094

US

US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Sep	112-14	112-11	-0-06	112-16	112-08	248,864	432,408
Dec	112-03	111-29	-	112-03	111-29	547	25,218
Mar	-	111-15	-	-	-	50	2,049

Japan

NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Sep	123.91	-	-	124.02	123.88	906	n/a
Dec	123.33	-	-	123.33	123.31	120	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Mon Jun 23	Day's change %	Fri Jun 20	Accrued interest	xd adj. ytd		Low coupon yield Jun 23	Jun 20	Yr. ago	Medium coupon yield Jun 23	Jun 20	Yr. ago	High coupon yield Jun 23	Jun 20	Yr. ago
1 Up to 5 years (20)	119.66	-0.13	119.82	2.22	5.38	5 yrs	7.14	7.08	7.39	7.20	7.13	7.44	7.25	7.19	7.52
2 5-15 years (20)	151.46	-0.25	151.84	2.28	5.93	15 yrs	7.18	7.15	8.21	7.23	7.20	8.22	7.26	7.21	8.29
3 Over 15 years (6)	178.35	-0.30	178.88	5.63	5.02	20 yrs	7.20	7.18	8.29	7.24	7.21	8.29	7.26	7.21	8.34
4 Irredeemables (5)	205.93	-0.33	206.61	2.12	7.10	Irred.†	7.32	7.30	8.32						
5 All stocks (51)	146.07	-0.22	146.39	2.88	5.68										

Index-linked							Inflation 5% Jun 23	Jun 20	Yr. ago	Inflation 10% Jun 23	Jun 20	Yr. ago
6 Up to 5 years (2)	204.67	-0.01	204.70	1.38	3.03	Up to 5 yrs	3.81	3.60	2.72	2.83	2.92	1.17
7 Over 5 years (10)	196.89	0.00	196.88	1.72	2.86	Over 5 yrs	3.67	3.66	3.83	3.45	3.45	3.61
8 All stocks (12)	196.64	0.00	196.63	1.68	2.86							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.

FT Fixed Interest Indices

	Jun 23	Jun 20	Jun 19	Jun 18	Jun 17	Yr ago	High*	Low*
Govt. Secs. (UK)	96.03	96.29	96.04	96.29	96.68	92.49	97.51	93.31
Fixed Interest	123.32	123.02	123.15	122.67	122.24	111.81	123.32	115.32

Gilt Edged Activity Indices

	Jun 20	Jun 19	Jun 18	Jun 17	Jun 16
Gilt Edged bargains	NA	NA	NA	NA	NA
5-day average	NA	NA	NA	NA	NA

 * for 1997. Government Securities high since compilation: 127.40 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974. Gilt Edged volume data will be unavailable until further notice.

UK GILTS PRICES

[illegible]

Other Fixed Interest

[illegible]

FT/ISMA INTERNATIONAL BOND SERVICE

[illegible]

Koor's $300 Yankee deal postponed

CURRENCIES AND MONEY

Silence of the G7 drives yen lower

MARKETS REPORT

By Simon Kuper

The Group of Seven's near-silence on the issue of currencies hit the yen yesterday. Some traders had feared that the US would use the G7's Denver summit to threaten a weaker dollar as a way of cutting Japan's rising trade surplus. President Bill Clinton did discuss the trade surplus this weekend, but he said Japan should cut it by deregulating its economy in order to stimulate domestic demand. The dollar rose Y0.82, closing in London at Y115.475 to the yen.

The pound and the D-Mark performed even better. Sterling rose on comments in the Sunday newspapers that UK base rates could rise by 50 basis points in July, after last week's retail sales data emerged as the strongest since the late 1980s. By late yesterday the pound had risen 0.5 pfennigs against the D-Mark and 1.5 cents against the dollar to DM2.870 and $1.669. The D-Mark was at DM1.718 to the dollar in late trading, 1.4 pfennigs above its Friday close.

■ The dollar has now risen Y2.3 since Thursday, on diminishing trade fears. But forex strategists cite two brakes on the US currency.

Mr Paul Chertkow, head of global forex research at UBS in London, says many large investors are still waiting to sell the dollar each time it rises. Japanese life insurance companies, he says, are reluctant to buy more foreign assets because they think the risk of a yen rise is too great. Japanese corporates likewise think the dollar may fall again, and are keen to hedge against this. "Many of the largest Japanese companies want to hedge up to 75 per cent of their forecast dollar receivables" for two quarters' hence, says Mr Chertkow.

Finally, he says, many US hedge funds are still looking to take profits on their "carry trades" – in which they borrowed yen to buy other currencies – if the dollar rises again. That would entail buying yen.

Mr Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, points to another problem for the dollar: traders no longer believe that the Federal Reserve will raise interest rates after its Open Market committee meeting next week. Eurodollar futures contracts now price in little more than a 25 basis point rate rise by December, whereas in early April they were pricing in increases of about 75 basis points. The drop in rate prospects is why the dollar has failed to gain against the D-Mark, despite growing fears of a weak euro, says Mr Meggyesi.

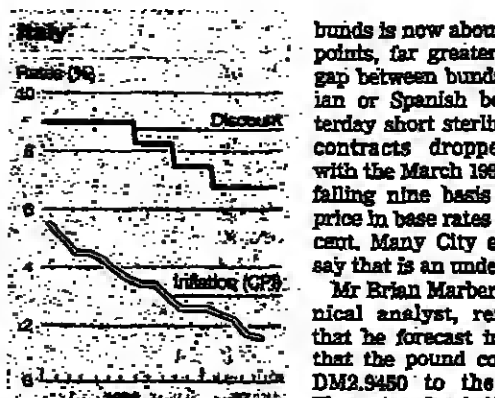
■ Now is the time for all Britons to go on holiday. The weather is miserable here, and the pound keeps rising.

The latter, say strategists, is entirely due to high UK interest rates. The yield gap between gilts and German bunds is now about 150 basis points, far greater than the gap between bunds and Italian or Spanish bonds. Yesterday short sterling futures contracts dropped again, with the March 1998 contract falling nine basis points to price in base rates of 7.25 per cent. Many City economists say that is an underestimate.

Mr Brian Marber, the technical analyst, reminds us that he forecast in January that the pound could reach DM2.9450 to the D-Mark. Then, very few believed him. Now almost everyone does. The pound has broken multi-year downtrends against various currencies in 1997, he says. "We're in a new era as far as the pound is concerned, and it could go on for several years."

■ The market has been waiting weeks for the Bank of Italy to cut interest rates. Yesterday's benign June consumer price inflation data from various cities seemed another prompt for a cut. Yet the Bank remained seated on its hands.

Mr Lorenzo Codogno, chief economist at the Bank of America in Milan, expects a cut within the next few days. But he thinks that could be the last move of 1997, as he agrees with Mr Antonio Fazio, governor of the Bank of Italy, that inflation could rise later this year. The increase would be from present CPI levels of about 1.5 per cent – around a 30-year low – to about 2.4 per cent by December. Mr Codogno says: "That is nothing compared to historical levels, but the movement itself could be embarrassing to the Bank of Italy."



■ Pound in New York

Jun 23	—Latest—	– Prev. close –
£ spot	1.6680	1.6585
1 mth	1.6668	1.6553
3 mth	1.6638	1.6525
1 yr	1.6509	1.6405

■ OTHER CURRENCIES

Jun 23	£	$
Czech Rp	52.9305 - 53.0422	31.8010 - 31.8610
Hungary	308.089 - 308.339	185.180 - 185.218
Iran	4994.40 - 4991.40	3000.00 - 3000.00
Kuwait	0.5030 - 0.5038	0.3022 - 0.3026
Poland	5.3616 - 5.3881	3.2246 - 3.2368
Russia	9583.49 - 9593.31	5760.60 - 5761.00
U.A.E.	6.1101 - 6.1146	3.6724 - 3.6729

POUND SPOT FORWARD AGAINST THE POUND

Jun 23		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	20.1718	+0.0144	611 - 824	20.1922	20.1115	20.1174	3.2	20.0047	3.6	19.4992	3.3	102.7
Belgium	(BFr)	59.1509	+0.0203	932 - 086	59.2160	58.9690	58.9838	3.4	58.6405	3.5	57.0982	3.5	102.5
Denmark	(DKr)	10.9170	+0.0073	110 - 221	10.9309	10.8807	10.8897	3.0	10.8323	3.1	10.5828	3.1	105.0
Finland	(FM)	8.5674	-0.0153	586 - 762	8.6050	8.5380	8.542	3.6	8.4895	3.6	8.2769	3.4	82.3
France	(FFr)	9.6714	+0.0029	680 - 778	9.6932	9.6364	9.6453	3.2	9.5907	3.3	9.346	3.4	105.0
Germany	(DM)	2.8666	+0.0018	651 - 680	2.8706	2.8567	2.8582	3.5	2.8408	3.6	2.7641	3.6	103.6
Greece	(Dr)	452.057	-0.818	822 - 293	454.470	450.848	453.84	-4.7	456.484	-3.9	464.832	-2.8	65.4
Ireland	(I£)	1.1014	+0.005	992 - 035	1.1055	1.0957	1.101	0.4	1.1	0.5	1.0918	0.9	96.3
Italy	(L)	2804.09	+2.78	201 - 617	2808.03	2792.02	2804.17	0.0	2804.2	0.0	2802.54	0.1	78.5
Luxembourg	(LFr)	59.1509	+0.0203	932 - 086	59.2160	58.9590	58.9838	3.4	58.6405	3.5	57.0982	3.5	102.5
Netherlands	(Fl)	3.2248	+0.0022	231 - 265	3.2291	3.2142	3.2164	3.5	3.1968	3.6	3.1124	3.5	102.0
Norway	(NKr)	12.0606	+0.0329	527 - 686	12.0848	11.9826	12.0278	3.2	11.9619	3.3	11.6963	3.0	98.3
Portugal	(Es)	289.089	+0.317	836 - 342	289.866	288.027	288.933	0.6	288.403	0.9	284.315	1.7	93.3
Spain	(Pta)	242.031	+0.373	933 - 129	242.250	241.130	241.777	1.3	241.103	1.6	237.485	1.9	77.3
Sweden	(SKr)	12.8358	+0.032	257 - 459	12.8503	12.7345	12.8114	2.3	12.7591	2.4	12.5487	2.2	84.0
Switzerland	(SFr)	2.3870	+0.0037	856 - 883	2.3908	2.3796	2.3785	3.3	2.3552	5.8	2.2645	5.1	105.4
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	101.5
Ecu	-	1.4630	-0.0005	608 - 651	1.4651	1.4600	1.4601	2.4	1.4536	2.6	1.424	2.7	-
SDR†	-	1.185800	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6636	+0.0103	630 - 641	1.6660	1.6526	-	-	-	-	-	-	-
Brazil	(R$)	1.7923	+0.0096	916 - 930	1.7937	1.7791	-	-	-	-	-	-	-
Canada	(C$)	2.3120	+0.0112	109 - 131	2.3157	2.2989	2.3051	3.6	2.292	3.5	2.2424	3.0	84.0
Mexico	(New Peso)	13.2910	+0.1302	854 - 984	13.3030	13.1659	-	-	-	-	-	-	-
USA	($)	1.6643	+0.0103	636 - 648	1.6668	1.6533	1.663	0.9	1.6602	1.0	1.6476	1.0	102.7
Pacific/Middle East/Africa													
Australia	(A$)	2.2113	+0.0096	099 - 127	2.2205	2.2006	2.2107	0.3	2.2083	0.5	2.1987	0.8	92.4
Hong Kong	(HK$)	12.8950	+0.0689	903 - 997	12.9132	12.8045	12.894	0.1	12.8875	0.2	12.8325	0.5	-
India	(Rs)	59.5903	+0.3698	308 - 498	59.6498	59.2290	59.7856	-3.9	60.1861	-4.0	61.8658	-3.8	-
Israel	(Shk)	5.8151	+0.1415	068 - 233	5.8341	5.6543	-	-	-	-	-	-	-
Japan	(Y)	192.165	+2.537	069 - 301	192.570	190.470	191.21	6.1	189.255	6.1	180.97	5.8	131.8
Malaysia	(M$)	4.1912	+0.0810	891 - 933	4.1974	4.1594	4.1955	-1.2	4.2035	-1.2	4.2221	-0.7	-
New Zealand	(NZ$)	2.4358	+0.0228	342 - 375	2.4397	2.4202	2.4358	0.1	2.4367	-0.1	2.4439	-0.3	112.2
Philippines	(Peso)	43.8959	+0.2634	411 - 507	43.9507	43.6411	44.0557	-4.4	44.3052	-3.7	45.3621	-3.3	-
Saudi Arabia	(SR)	6.2424	+0.0386	401 - 447	6.2573	6.2015	6.2389	0.7	6.2305	0.8	6.194	0.8	-
Singapore	(S$)	2.3788	+0.016	772 - 803	2.3812	2.3640	2.3742	2.3	2.3641	2.5	2.3159	2.8	-
South Africa	(R)	7.4861	+0.0266	813 - 908	7.5002	7.4432	7.5469	-9.7	7.6647	-9.5	8.1017	-8.2	-
South Korea	(Won)	1477.90	+8.15	413 - 167	1481.67	1468.68	-	-	-	-	-	-	-
Taiwan	(T$)	46.4340	+0.246	867 - 812	46.4812	46.1388	46.4174	0.4	46.3778	0.5	46.1799	0.5	-
Thailand	(Bt)	43.2718	+0.2181	756 - 680	43.3680	39.7420	43.6084	-9.3	44.07	-7.4	45.1002	-4.2	-

† Rates for Jun 20. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T. The exchange rates printed in this table are also available on the internet at http://www.FT.com

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Jun 23		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P. Morgan Index
Europe													
Austria	(Sch)	12.1203	-0.0668	175 - 230	12.1858	12.0995	12.0963	2.4	12.0473	2.4	11.8233	2.5	102.4
Belgium	(BFr)	35.5410	-0.209	170 - 650	35.7220	35.5000	35.468	2.5	35.3145	2.5	34.621	2.6	102.4
Denmark	(DKr)	6.5595	-0.0384	584 - 606	6.5935	6.5310	6.5478	2.1	6.5235	2.2	6.4171	2.2	104.3
Finland	(FM)	5.1478	-0.0413	440 - 515	5.1981	5.1404	5.1363	2.7	5.1127	2.7	5.0188	2.5	81.5
France	(FFr)	5.8111	-0.0344	090 - 132	5.8386	5.8040	5.7985	2.4	5.7757	2.4	5.6689	2.5	104.4
Germany	(DM)	1.7224	-0.0097	220 - 227	1.7320	1.7195	1.7186	2.7	1.7107	2.7	1.6758	2.7	103.1
Greece	(Dr)	271.620	-2.065	580 - 660	274.770	271.190	272.915	-5.7	274.87	-4.9	282.12	-3.9	64.8
Ireland	(I£)	1.5112	+0.0025	087 - 136	1.5136	1.5065	1.5105	0.6	1.5095	0.4	1.5098	0.1	-
Italy	(L)	1684.85	-8.81	410 - 559	1692.00	1681.98	1686.62	-1.3	1689.62	-1.1	1693.05	-0.5	78.1
Luxembourg	(LFr)	35.5410	-0.209	170 - 650	35.7220	35.5000	35.468	2.5	35.3145	2.5	34.621	2.6	102.4
Netherlands	(Fl)	1.9377	-0.0107	372 - 381	1.9479	1.9348	1.9334	2.8	1.9249	2.8	1.8872	2.6	101.9
Norway	(NKr)	7.2466	-0.0252	441 - 491	7.2698	7.2202	7.2321	2.4	7.2037	2.4	7.092	2.1	95.6
Portugal	(Es)	173.700	-0.89	600 - 800	174.480	173.500	173.603	0.3	173.61	0.2	172.44	0.7	93.8
Spain	(Pta)	145.425	-0.88	410 - 440	146.110	145.100	145.38	0.4	145.205	0.6	144.03	1.0	76.9
Sweden	(SKr)	7.7125	-0.0296	067 - 182	7.7189	7.6922	7.7095	1.4	7.6841	1.5	7.6101	1.5	83.5
Switzerland	(SFr)	1.4342	-0.0067	338 - 346	1.4440	1.4322	1.4288	4.5	1.4182	4.5	1.3727	4.3	105.1
UK	(£)	1.6643	+0.0103	638 - 648	1.6668	1.6533	1.663	0.9	1.6602	1.0	1.6476	1.0	100.8
Ecu	-	1.1377	+0.0075	383 - 390	1.1395	1.1310	1.1391	-1.5	1.1423	-1.6	1.1579	-1.8	-
SDR†	-	0.71964	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9996	-	995 - 998	0.9998	0.9995	-	-	-	-	-	-	-
Brazil	(R$)	1.0769	-0.0009	766 - 770	1.0770	1.0761	-	-	-	-	-	-	-
Canada	(C$)	1.3892	-0.0019	889 - 894	1.3921	1.3880	1.3861	2.7	1.3803	2.5	1.3598	2.1	83.5
Mexico	(New Peso)	7.9865	+0.029	830 - 880	7.9880	7.9760	8.095	-16.3	8.306	-16.0	9.2165	-15.4	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	103.6
Pacific/Middle East/Africa													
Australia	(A$)	1.3288	-0.0025	282 - 291	1.3310	1.3282	1.3284	0.2	1.3278	0.2	1.3236	0.4	94.3
Hong Kong	(HK$)	7.7480	+0.0055	475 - 485	7.7485	7.7430	7.7485	-0.1	7.7494	-0.1	7.7517	0.9	-
India	(Rs)	35.8050	-	800 - 300	35.8300	35.7800	35.9425	-4.6	36.2275	-4.7	37.44	-4.6	-
Israel	(Shk)	3.4940	+0.0638	901 - 979	3.5027	3.4188	-	-	-	-	-	-	-
Japan	(Y)	115.475	+0.815	440 - 510	115.870	115.090	114.98	5.4	113.86	5.2	109.68	5.0	134.0
Malaysia	(M$)	2.5183	+0.0036	178 - 188	2.5190	2.5140	2.5228	-2.1	2.5318	-2.1	2.5618	-1.7	-
New Zealand	(NZ$)	1.4636	+0.0044	631 - 641	1.4641	1.4631	1.4644	-0.7	1.4668	-0.9	1.4769	-0.9	-
Philippines	(Peso)	26.3750	-0.005	500 - 000	26.4000	26.3500	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7508	-	505 - 510	3.7510	3.7505	3.7515	-0.2	3.7525	-0.2	3.7571	-0.2	-
Singapore	(S$)	1.4293	+0.002	288 - 298	1.4308	1.4282	1.4276	1.5	1.4238	1.6	1.4048	1.7	-
South Africa	(R)	4.4980	-0.012	965 - 995	4.5085	4.4965	4.5385	-10.8	4.616	-10.7	4.9205	-9.4	-
South Korea	(Won)	888.000	-	000 - 000	890.800	886.000	-	-	-	-	-	-	-
Taiwan	(T$)	27.9000	-0.025	800 - 200	27.9200	27.8800	27.911	-0.5	27.92	-0.3	28.0125	-0.4	-
Thailand	(Bt)	28.0000	-0.08	500 - 500	28.0500	24.0000	28.225	-10.4	28.55	-8.5	27.375	-5.3	-

† SDR rate per $ for Jun 20. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Jun 20: Base average 1990=100. The exchange rates printed in this table are also available on the internet at http://www.FT.com

WORLD INTEREST RATES

MONEY RATES

June 23	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	3 11/32	3 3/8	3 13/32	3 3/8	3 17/32	6.00	2.50	-
France	3 1/4	3 1/4	3 5/16	3 5/16	3 1/2	3.10	-	4.75
Germany	3	3 1/8	3 1/8	3 1/4	3 3/8	4.50	2.50	3.00
Ireland	6 1/4	6 3/8	6 3/8	6 3/8	6 3/8	-	-	6.75
Italy	6 13/16	6 7/8	6 13/16	6 13/16	6 3/4	8.25	6.75	6.82
Netherlands	2 13/16	3 1/8	3 1/4	3 1/8	3 3/8	-	2.50	2.90
Switzerland	1	1 3/8	1 3/8	1 1/2	1 1/4	-	1.00	-
US	5 1/4	5 5/8	5 3/4	5 7/8	6 1/8	-	5.00	-
Japan	1/2	1/2	1/2	1/2	5/8	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	5 11/16	5 13/16	5 7/8	6 1/8	-	-	-
US Dollar CDs	-	5.50	5.59	5.69	5.89	-	-	-
ECU Linked Ds	-	4 1/8	4 1/8	4 1/4	4 1/4	-	-	-
SDR Linked Ds	-	3 5/8	3 7/8	3 13/16	3 7/8	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Jun 23	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	3 3/8 - 3 1/4	3 3/8 - 3 11/32	3 3/8 - 3 1/4	3 3/8 - 3 3/8	3 1/2 - 3 3/8	3 7/16 - 3 11/32
Danish Krone	3 7/16 - 3 5/16	3 11/32 - 3 9/32	3 1/2 - 3 7/16	3 5/8 - 3 1/2	3 23/32 - 3 19/32	3 29/32 - 3 3/4
German Mark	3 1/8 - 2 13/16	3 1/8 - 2 15/16	3 1/8 - 3	3 3/16 - 3 1/16	3 5/16 - 3 3/16	3 1/2 - 3 3/8
Dutch Guilder	2 7/8 - 2 3/4	3 1/32 - 2 31/32	3 1/8 - 3 1/32	3 3/16 - 3 1/16	3 3/8 - 3 1/4	3 5/8 - 3 1/2
French Franc	3 1/4 - 3 1/8	3 3/8 - 3 1/4	3 11/32 - 3 1/4	3 5/8 - 3 3/8	3 15/32 - 3 3/8	3 5/8 - 3 1/2
Portuguese Esc.	5 7/8 - 5 11/16	6 1/16 - 5 15/16	6 1/16 - 5 15/16	5 15/16 - 5 3/4	6 1/8 - 5 15/16	5 15/16 - 5 13/16
Spanish Peseta	5 11/16 - 5 1/2	5 5/8 - 5 1/4	5 5/8 - 5 1/2	5 5/8 - 5 1/2	5 1/8 - 4 15/16	5 1/8 - 4 15/16
Sterling	6 3/4 - 6 1/8	6 3/4 - 6 1/8	6 3/4 - 6 1/2	6 27/32 - 6 25/32	6 31/32 - 6 7/8	7 1/4 - 7 1/8
Swiss Franc	1 1/4 - 3/4	1 3/8 - 1 1/4	1 7/16 - 1 5/16	1 3/8 - 1 1/4	1 7/16 - 1 3/8	1 13/16 - 1 11/16
Canadian Dollar	3 - 2 3/4	3 1/8 - 2 31/32	3 1/8 - 2 31/32	3 1/4 - 3 1/8	3 1/2 - 3 3/8	3 29/32 - 3 25/32
US Dollar	5 1/2 - 5 3/8	5 19/32 - 5 15/32	5 3/4 - 5 5/8	5 25/32 - 5 21/32	5 29/32 - 5 25/32	6 1/16 - 5 31/32
Italian Lira	7 1/2 - 6 1/2	6 13/16 - 6 11/16	6 7/8 - 6 13/16	6 7/8 - 6 3/4	6 13/16 - 6 5/8	6 7/8 - 6 11/16
Japanese Yen	11/32 - 1/2	11/32 - 1/4	17/32 - 13/32	5/8 - 15/32	5/8 - 15/32	3/4 - 5/8
Asian $Sing	3 5/8 - 3 1/8	3 1/2 - 3 1/4	3 11/16 - 3 1/2	3 13/16 - 3 1/2	3 3/4 - 3 5/8	3 13/16 - 3 11/16

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris Interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.54	96.54	+0.01	96.56	96.52	7,139	66,049
Dec	96.51	96.51	-	96.54	96.50	2,882	34,943
Mar	96.44	96.43	-	96.46	96.42	1,766	31,491

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	96.82	96.82	-	96.83	96.82	5810	275895
Dec	96.71	96.70	-0.01	96.73	96.70	4602	268561
Mar	96.62	96.60	-0.01	96.62	96.59	7444	232080
Jun	96.43	96.42	-0.01	96.44	96.42	9001	161454

■ ONE MONTH EUROMARK FUTURES (LIFFE)* DM3m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Jul	-	96.89	-	-	-	0	395
Aug	-	96.88	-	-	-	0	290
Sep	-	96.86	-	-	-	0	3
Oct	-	96.84	-	-	-	0	80

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.50	93.53	+0.03	93.55	93.46	24586	118402
Dec	93.89	93.90	+0.04	93.93	93.83	15998	70047
Mar	94.12	94.13	+0.05	94.13	94.07	6929	44614
Jun	94.24	94.26	+0.05	94.28	94.21	3650	32537

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	98.59	98.59	-	98.61	98.55	4472	72862
Dec	98.42	98.43	-	98.45	98.38	3169	42419
Mar	98.32	98.32	-	98.34	98.27	925	15848
Jun	98.13	98.16	+0.01	98.16	98.13	430	4036

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	99.31	+0.01	-	-	0	n/a
Dec	-	99.10	+0.01	-	-	0	n/a
Mar	-	98.87	+0.01	-	-	0	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	95.84	95.82	-	95.84	95.82	259	9673
Dec	95.78	95.78	-	95.78	95.78	97	6094
Mar	95.76	95.75	-	95.79	95.75	177	4231
Jun	95.68	95.67	-	95.69	95.67	58	2901

* LIFFE futures also traded on APT

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9350	0.29	0.55	0.79	0.17	0.15	0.16
9375	0.09	0.36	0.61	0.31	0.21	0.23
9400	0.03	0.23	0.45	0.50	0.33	0.32

Est. vol. total, Calls 7536 Puts 2147. Previous day's open int., Calls 61210 Puts 35023

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Jun 23		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.46	16.35	4.846	1.862	4741	5.452	20.39	488.7	409.2	21.70	4.035	1.691	3.909	2.814	324.9	2.473
Denmark	(DKr)	54.18	10	8.859	2.626	1.009	2569	2.954	11.05	264.8	221.7	11.76	2.186	0.918	2.118	1.525	176.0	1.340
France	(FFr)	61.16	11.29	10	2.964	1.139	2899	3.334	12.47	298.9	250.3	13.27	2.468	1.034	2.391	1.721	198.7	1.513
Germany	(DM)	20.63	3.808	3.374	1	0.384	978.2	1.125	4.207	100.8	84.43	4.478	0.833	0.349	0.807	0.581	67.04	0.510
Ireland	(I£)	53.71	9.913	8.782	2.603	1	2546	2.928	10.95	262.5	219.8	11.66	2.167	0.908	2.099	1.511	174.5	1.328
Italy	(L)	2.109	0.389	0.345	0.102	0.039	100	0.115	0.430	10.31	8.631	0.458	0.085	0.036	0.082	0.059	6.854	0.052
Netherlands	(Fl)	18.34	3.385	2.999	0.889	0.342	869.5	1	3.740	89.64	75.05	3.980	0.740	0.310	0.717	0.516	59.58	0.454
Norway	(NKr)	49.05	9.052	8.019	2.377	0.913	2325	2.674	10	239.7	200.7	10.64	1.979	0.829	1.917	1.380	159.4	1.213
Portugal	(Es)	20.46	3.776	3.345	0.992	0.381	970.0	1.116	4.172	100	83.72	4.440	0.826	0.346	0.800	0.576	66.48	0.506
Spain	(Pta)	24.44	4.511	3.996	1.184	0.455	1159	1.332	4.983	119.4	100	5.303	0.986	0.413	0.955	0.688	79.41	0.604
Sweden	(SKr)	46.08	8.506	7.535	2.233	0.858	2185	2.512	9.396	225.2	188.6	10	1.860	0.779	1.801	1.297	149.7	1.140
Switzerland	(SFr)	24.78	4.574	4.052	1.201	0.461	1175	1.351	5.053	121.1	101.4	5.378	1	0.419	0.969	0.697	80.52	0.613
UK	(£)	59.15	10.92	9.671	2.867	1.101	2804	3.225	12.06	289.1	242.0	12.84	2.387	1	2.312	1.664	192.2	1.463
Canada	(C$)	25.58	4.722	4.183	1.240	0.476	1213	1.395	5.216	125.0	104.7	5.552	1.032	0.433	1	0.720	83.12	0.633
USA	($)	35.54	6.560	5.811	1.722	0.662	1685	1.938	7.247	173.7	145.4	7.713	1.434	0.601	1.389	1	115.5	0.879
Japan	(Y)	30.78	5.680	5.032	1.492	0.573	1459	1.678	6.275	150.4	125.9	6.679	1.242	0.520	1.203	0.866	100	0.761
Ecu	-	40.44	7.463	6.611	1.960	0.753	1917	2.205	8.244	197.6	165.5	8.775	1.632	0.684	1.581	1.138	131.4	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.5811	0.5836	+0.0012	0.5848	0.5811	11,379	61,160
Dec	0.5884	0.5884	+0.0022	0.5884	0.5881	13	878
Mar	-	0.5906	-	-	-	2	123

■ JAPANESE YEN FUTURES (IMM) Yen 12.5m per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.8792	0.8785	-0.0061	0.8797	0.8751	8,732	48,918
Dec	0.8895	0.8895	-0.0047	0.8905	0.8890	46	1,071
Mar	-	0.9090	-	-	-	2	107

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	0.7005	0.7040	+0.0025	0.7055	0.7000	9,425	33,258
Dec	0.7125	0.7127	+0.0035	0.7125	0.7125	86	804
Mar	-	0.7145	-	-	-	60	70

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	1.6534	1.6608	+0.0084	1.6636	1.6500	9,040	42,163
Dec	1.6580	1.6554	+0.0074	1.6570	1.6554	153	362
Mar	-	1.6430	-	1.6580	-	1	2

UK INTEREST RATES

LONDON MONEY RATES

Jun 23	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	6½ - 5½	6⅝ - 6⅛	6 23/32 - 6 7/16	6⅞ - 6¾	7 - 6⅞	7¼ - 7
Sterling CDs	-	-	6 17/32 - 6 15/32	6⅝ - 6 9/16	6¾ - 6 11/16	6 29/32 - 6 27/32
Treasury Bills	-	-	6 7/16 - 6⅜	6 17/32 - 6 15/32	-	-
Bank Bills	-	-	6 13/32 - 6 11/32	6½ - 6 15/32	6 23/32 - 6 21/32	-
Local authority deps.	5⅞ - 6¼	6½ - 6⅜	6 15/32 - 6 13/32	6 11/16 - 6 19/32	6 13/16 - 6¾	7 1/16 - 6 31/32
Discount Market deps	6¾ - 6⅜	6⅝ - 6¼	-	-	-	-

UK clearing bank base lending rate 6½ per cent from Jun 6, 1997

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	2½	5½	5	5	4¾

Certs of Tax dep. under £100,000 is 2½pc. Deposits withdrawn for cash 1¼pc. Ave. tender rate of discount on Jun 13, 6.3110pc. ECGD fixed rate Stlg. Export Finance. Make up day May 30, 1997. Agreed rate for period Jun 26, 1997 to Jul 25, 1997, Scheme III 7.78pc. Reference rate for period May 1, 1997 to May 30, 1997, Schemes IV & V 6.530pc. Finance House Base Rate 7pc from Jun 1, 1997

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	93.03	92.96	-0.08	93.03	92.96	24538	132092
Dec	92.83	92.76	-0.09	92.96	92.76	33435	104458
Mar	92.70	92.63	-0.10	92.70	92.63	14929	72771
Jun	92.60	92.56	-0.10	92.61	92.56	7597	49522
Sep	92.53	92.53	-0.09	92.56	92.53	4210	33834

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9275	0.26	0.19	0.22	0.05	0.16	0.34
9300	0.09	0.07	0.11	0.13	0.31	0.48
9325	0.02	0.02	0.05	0.31	0.51	0.67

Est. vol. total, Calls 8956 Puts 12223. Previous day's open int., Calls 118362 Puts 113344

EMS EUROPEAN CURRENCY UNIT RATES

Jun 23	Ecu cen. rates	Rate against Ecu	Change on day	% +/- from cen. rate	% spread v weakest	Div. ind.
Ireland	0.798709	0.754936	+0.003644	-5.48	8.86	37
Finland	5.85424	5.87501	-0.00663	0.35	2.34	-2
Portugal	197.398	198.218	+0.135	0.42	2.28	-3
Italy	1906.48	1924.30	+1.44	0.93	1.76	-7
Spain	163.826	165.951	+0.154	1.30	1.39	-9
Denmark	7.34555	7.48719	+0.00384	1.93	0.76	-13
Netherlands	2.16979	2.21166	+0.00086	1.93	0.76	-14
Germany	1.92573	1.96587	+0.00074	2.08	0.61	-21
Austria	13.5485	13.8338	+0.0062	2.11	0.59	-15
Belgium	39.7191	40.5668	+0.016	2.13	0.56	-16
France	6.45863	6.63348	+0.00013	2.71	0.00	-23
NON ERM MEMBERS						
Greece	295.269	310.312	-0.379	5.09	-2.27	-
UK	0.793103	0.686463	-0.001938	-13.45	18.66	-

Ecu central rates set by the European Commission. Currencies are in descending relative strength. Percentage changes are for Ecu; a positive change denotes a weak currency. Divergence shows the ratio between two spreads: the percentage difference between the actual market and Ecu central rates for a currency, and the maximum permitted percentage deviation of the currency's market rate from its Ecu central rate. 17/9/92: Sterling suspended from ERM. Adjustment calculated by the Financial Times.

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
1.620	3.64	-	4.33	0.13	0.67	1.10
1.630	-	3.29	-	0.26	0.84	1.37
1.640	2.03	2.62	3.01	0.49	1.23	1.75

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ PHILADELPHIA SE D-MARK/$ OPTIONS DM62,500 ($ per DM)

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	PUTS Jul	PUTS Aug	PUTS Sep
0.570	1.11	-	1.89	0.13	0.34	0.47
0.575	0.75	1.10	1.38	0.28	0.50	0.65
0.580	0.45	0.83	1.09	0.48	0.72	0.87

Previous day's vol., Calls n/a Puts n/a. Prev. day's open int., Calls n/a Puts n/a

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.14	94.14	-	94.14	94.13	48,769	557,545
Dec	93.95	93.95	-0.01	93.95	93.94	41,603	426,483
Mar	93.87	93.87	-0.01	93.88	93.86	29,262	290,575

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

	Open	Latest	Change	High	Low	Est. vol	Open int.
Sep	94.81	94.82	+0.01	94.82	94.81	62	7,318
Dec	-	94.85	-	-	-	56	358

All Open interest figs. are for previous day

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

Strike Price	CALLS Jul	CALLS Aug	CALLS Sep	CALLS Dec	PUTS Jul	PUTS Aug	PUTS Sep	PUTS Dec
9675	0.08	0.08	0.09	0.09	0.01	0.02	0.02	0.14
9700	0.01	0.01	0.01	0.02	0.19	0.19	0.19	0.32
9725	0	0	0	0	0.43	0.43	0.43	0.55

Est. vol. total, Calls 458 Puts 660. Previous day's open int., Calls 343787 Puts 237129

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

Strike Price	CALLS Sep	CALLS Dec	CALLS Mar	PUTS Sep	PUTS Dec	PUTS Mar
9875	0.09	0.10	0.08	0.25	0.42	0.52
9900	0.03	0.04	0.04	0.44	0.61	0.72

Est. vol. total, Calls 200 Puts 200. Previous day's open int., Calls 2625 Puts 3055

BASE LENDING RATES

	%		%		%
Adam & Company	6.50	Duncan Lawrie	6.50	•Singer & Friedlander	6.50
Allied Irish Bank (GB)	6.50	Exeter Bank Limited	7.50	•Smith & Williamson Secs	6.50
•Henry Ansbacher	6.50	Financial & Gen Bank	7.50	Scottish Widows Bank	6.50
Bank of Baroda	6.50	•Robert Fleming & Co	6.50	TSB	6.50
Banco Bilbao Vizcaya	6.50	•Guinness Mahon	6.50	United Bank of Kuwait	6.50
Bank of Cyprus	6.50	Habib Bank AG Zurich	6.50	Unity Trust Bank Plc	6.50
Bank of Ireland	6.50	•Hambros Bank	6.50	Western Trust	6.50
Bank of India	6.50	Heritable & Gen Inv Bk.	6.50	Whiteaway Laidlaw	6.50
Bank of Scotland	6.50	C. Hoare & Co	6.50	Yorkshire Bank	6.50
Barclays Bank	6.50	Hongkong & Shanghai	6.50		
Brit Bk of Mid East	6.50	Investec Bank (UK) Ltd	6.50		
•Brown Shipley & Co Ltd	6.25	Julian Hodge Bank	6.50		
Citibank NA	6.50	•Leopold Joseph & Sons	6.50		
Clydesdale Bank	6.50	Lloyds Bank	6.50		
The Co-operative Bank	6.50	Midland Bank	6.50		
Coutts & Co	6.50	NatWestminster	6.50		
Cyprus Popular Bank	6.50	•Rea Brothers	6.50		
		Royal Bk of Scotland	6.50		

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COMMODITIES AND AGRICULTURE

Call for abolition of EU aluminium tariff

By Kenneth Gooding, Mining Correspondent

Aluminium consumers in the European Union paid an extra US$472m for the metal in 1995 because of a 6 per cent tariff on imported primary aluminium, Mr Jean-Pierre Ergas, executive vice-president of Alcan Aluminium of Canada, said yesterday. But $205m was retained by European producers and only $165m was actually paid as duty.

The situation arose because the EU had only one commercial price for aluminium, which was charged regardless of origin and whether duty was paid on it, he pointed out. In 1995, this resulted in EU aluminium producers collecting an extra $93 a tonne compared with the global price, Mr Ergas told delegates at the annual aluminium conference organised by the Financial Times and the CRU International consultancy.

Analysts estimated that, if Mr Ergas's calculations were accurate, Pechiney of France, Europe's biggest producer, benefited by more than $50m from the "duty bonus" and VAW Aluminium of Germany collected nearly as much.

Mr Ergas called for the abolition of the tariff which he described as "illogical, discriminatory and something that distorts trade".

He said later he hoped the EU would remove the tariff unilaterally, rather than wait for the next round of World Trade Organisation negotiations.

The Italian Aluminium Association was pressing its government to raise the issue with the European Commission and Alcan's UK subsidiary was to make representations to the UK government to do the same. Alcan also hoped to involve British Aluminium, the biggest UK aluminium fabricating group, and Rio Tinto, the Anglo-Australian group. Rio Tinto said last night it was against tariffs of any sort but it was not involved in approaches to the UK government about aluminium.

● China needed to import between 200,000 and 300,000 tonnes of aluminium this year if it was to meet demand, Mr Philippe Thaure, president of Alumax International, told the conference. If demand grew as widely as expected, China's aluminium import requirements would increase to an annual 500,000-1m tonnes.

The total would depend on expansion of domestic smelting capacity, but China was likely to reserve its electrical energy for other industries.

China's government might also curtail aluminium demand, as it did when it banned production of aluminium cans for a year, "but it is becoming more difficult for the government to do things like that".

Carmakers will not provide an 'instant bonanza' for industry

There would be no "instant bonanza" for aluminium from carmakers, conference delegates were warned by Mr Henk Vrins, board member at Hoogovens of the Netherlands, Kenneth Gooding writes.

"Don't think that the car will soon be to the aluminium industry what the beverage can was in the 1970s and 1980s. Steel has decided to fight back and not give up the battle for the can, so why would it give up the battle for the car?"

Mr Vrins said high volume, fuel-efficient cars of the near future would contain substantial quantities of steel and plastic, but with a much higher aluminium content.

Mr Pete Peterson, director at US steel group USX Corporation, said the aluminium solution to cutting the weight of cars only made economic sense if there was no other means of doing so, but the steel industry had its Ulsab (ultra-light steel auto body) project.

In spite of the "hype" about the higher scrap value of aluminium compared with steel, a car was not a can which could be immediately recycled. The average life of a North American car was 12 years. If all 15m cars made each year in North America were all of aluminium, they would cost an extra $780 to $870. "We are talking about investing, in North America alone, somewhere between $12bn and $13bn annually in what are essentially non-producing assets."

Further delay to Eramet meeting

By Andrew Jack in Paris

Eramet, the metals group controlled by the French government, has gained a reprieve with news that its annual general meeting has been postponed again.

The move gives the newly-elected Socialist government time to reconsider the line taken in the dispute over mining rights in New Caledonia by the previous Gaullist administration.

Eramet said yesterday its board meeting had been delayed until mid-July, and the AGM would follow at the end of the month.

Institutional investors and independent directors had expressed concern following pressure by the government, which controls the group through a 55 per cent stake in its holding company Erap, to force Mr Yves Rambaud, chairman, to resign.

Fidelity and Templeton, two of Eramet's largest minority shareholders with about 5 per cent each, had both threatened to boycott future French privatisations in the wake of the crisis at the company, which was partially sold in 1994.

The dispute with the state concerned proposals to strip Eramet of its nickel concession in New Caledonia, to comply with demands from nationalist groups.

Erap had already lined up Mr Thierry Chambolle, deputy managing director of Lyonnaise des Eaux, to take over from Mr Rambaud. However, pressure from employees and minority shareholders caused it to delay the AGM, at which the change would have taken place, until after the general election.

The meeting had been scheduled for today, but a number of directors had threatened to resign if Mr Rambaud's mandate was not renewed.

US sugar deal under threat

By Heather Bourbeau

US sugar producers' sweet deal may soon end with the passage of a bill designed to phase out the sugar programme over five years.

Mr Dan Miller, a Florida Republican senator, and his Democrat colleague, Mr Charles Schumer of New York, have introduced a bill to end the combination of price supports, loans and import restrictions, which cost US consumers an estimated $1.4bn a year.

The US price for raw sugar is 21 cents a pound, nearly double the world price. This year's bill would reduce loans to growers by 4 cents a pound, require them to repay their loans with money not sugar, and force producers to abide by the 1996 Freedom to Farm Act.

Last year, Mr Miller and Mr Schumer introduced similar legislation, tying it to the controversial farm bill, only to see it defeated by five votes.

The Freedom to Farm Act was designed to help the US agriculture industry in its transition to a free market.

Harvest: US sugar is nearly double the world price

The Miller-Schumer bill would convert financing to the public sector, but would not eliminate the minimum import quota on sugar.

It is not clear whether Mr Miller and Mr Schumer have enough votes for this year's bill to pass. The bill's supporters range from "sugar users", such as confectionery makers, to environmental and consumer rights organisations.

Along with higher sugar prices, the sugar programme has been blamed for ecological damage in Florida. Some scientists claim the increase in production over the past 30 years has led to phosphate and pesticide run-offs that threaten water in the region.

However, sugar industry support may again threaten passage of the bill. Many members of Congress receive campaign contributions from sugar producers. Those who voted against the 1996 bill received an average of $5,994 in campaign funds from sugar producers, while those who voted for the bill received only $853 on average, according to a study published by the Center for Responsive Politics.

The General Accounting Office, an arm of Congress, estimates that 1 per cent of sugar cane plantations receive nearly 60 per cent of all price supports.

However, the companies are determined to keep their advantage. They have begun counter-attacks, arguing that US production and jobs would disappear if the Miller-Schumer bill were to become law.

Oil prices rise on spat between UN and Iraq

MARKETS REPORT

By Robert Corzine and Gary Mead in London and Laurie Morse in Chicago

Oil prices made modest gains yesterday as markets reacted to the latest spat between Iraq and the UN Security Council. The bellwether Brent Blend for August delivery was quoted at about $17.77 a barrel in late afternoon trading in London, 14 cents up on last Friday's close.

The decision by the Security Council at the weekend to censure Iraq over its treatment of UN arms inspectors caused some concern in the market, which is already wondering when Iraq will begin exporting under the renewed oil for food plan.

The price of gold wobbled in London, the morning "fix" of $336.95 an ounce touching its lowest point since February 12, when it bottomed out at $336.90, itself a four-year low. However, the afternoon "fix" saw it recover to $338, just 20 cents below Friday's closing price, amid reports of some physical buying.

Gold is suffering from the effects of the strong dollar, which was bolstered over the weekend by the G7 conference of leading industrialised nations.

Zinc continued its rally on the London Metal Exchange, with the three-month price achieving a 6¾-year high, closing at $1,408.50 a tonne, up $9.50 from Friday's close.

Analysts say the metal's rally is being fuelled by speculators seeking to capitalise on a healthy global economy by betting on a base metal with low producer and consumer stocks.

Copper ended the day down $50 a tonne at $2,511, having rallied during the day from a low of $2,486.

News that the South Korean finance ministry would begin an investigation of futures trading on the LME by South Korean brokers was shrugged off by traders as having no potential bearing on prices.

Cocoa attracted buyers, touching an eight-year peak on the Coffee, Sugar and Cocoa Exchange in New York. By midday the September contract on the CSCE was trading $57 higher at $1,670 a tonne, largely driven by interest from investment funds, though increasing concern about the latest El Niño effect – which produces severe drought in many tropical regions – on 1997-98 harvests was also a factor. On the London Financial Futures Exchange the September future closed £20 up, at £1,131.

Grain and soyabean futures on the Chicago Board of Trade were under pressure in early trading after warm temperatures and beneficial rains boosted the condition of newly planted crops across the central US over the weekend.

Analysts said temperatures far above normal had speeded development of the US maize crop, which had been behind due to a cool wet spring.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE
(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1582.5-83.5	1586.5-87.5
Previous	1567.5-8.5	1580-81
High/low		1594/1580
AM Official	1549-49.5	1572.5-73
Kerb close		1587-88
Open int.	256,380	
Total daily turnover	63,940	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1440-45	1463-68
Previous	1443-8	1468-70
High/low		1468/1460
AM Official	1436-37	1462-64
Kerb close		1462-67
Open int.	5,102	
Total daily turnover	1,728	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	608-9	621-2
Previous	610-11	622-3
High/low	608	622/617
AM Official	605.5-6	618-8.5
Kerb close		620-1
Open int.	34,199	
Total daily turnover	4,555	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	7100-10	7215-20
Previous	7105-10	7215-20
High/low	7110/7095	7230/7170
AM Official	7095-100	7215-17
Kerb close		7210-30
Open int.	52,698	
Total daily turnover	14,433	

■ TIN ($ per tonne)

	Cash	3 mths
Close	5550-60	5600-10
Previous	5580-70	5610-15
High/low		5620/5575
AM Official	5535-40	5580-90
Kerb close		5620-30
Open int.	14,581	
Total daily turnover	4,043	

■ ZINC, special high grade ($ per tonne)

	Cash	3 mths
Close	1388-89	1407-08
Previous	1380-81	1399-400
High/low		1415/1386
AM Official	1371-72	1391.5-92
Kerb close		1408.5-09
Open int.	93,922	
Total daily turnover	30,258	

■ COPPER, grade A ($ per tonne)

	Cash	3 mths
Close	2543-45	2504-06
Previous	2708-11	2579-80
High/low	2630/2628	2535/2485
AM Official	2628-30	2494-95
Kerb close		2512-13
Open int.	148,343	
Total daily turnover	90,976	

■ LME AM Official £/$ rate: 1.6604
LME Closing £/$ rate: 1.6706

Spot: 1.6695 3 mths: 1.6655 6 mths: 1.6614 9 mths: 1.6570

■ HIGH GRADE COPPER (COMEX)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	118.60	+0.10	118.60	117.50	725	1,026
Jul	118.20	+0.10	118.70	118.70	10,691	21,891
Aug	116.90	-0.10	116.90	115.70	189	2,944
Sep	116.20	+0.10	116.60	114.95	5,577	16,502
Oct	114.00	+0.10	114.00	113.60	15	1,235
Nov	112.60	+0.50	115.10	115.10	4	1,227
Total					17,928	57,466

PRECIOUS METALS

■ LONDON BULLION MARKET
(Prices supplied by N M Rothschild)

Gold(Troy oz)	$ price	£ equiv	SFr equiv
Close	338.05-338.55		
Opening	337.30-337.60		
Morning fix	336.95	203.37	484.80
Afternoon fix	338.00	203.04	484.52
Day's High	338.70-339.00		
Day's Low	336.80-337.10		
Previous close	338.20-338.70		

Loco Ldn Mean Gold Lending Rates (Vs US$)

1 month ....4.53 6 months 4.47
2 months ....4.56 12 months 4.36
3 months 4.55

Silver Fix	p/troy oz.	US cts equiv.
Spot	284.60	472.25
3 months	288.70	477.80
6 months	293.15	483.80
1 year	301.75	495.25
Gold Coins	$ price	£ equiv.
Krugerrand	337-339	202-204
Maple Leaf	-	-
New Sovereign	78-81	47-49

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	339.4	+1.7	338.2	336.5	45	327
Aug	341.1	+1.7	341.4	338.5	31,119	93,981
Oct	343.6	+1.7	344.3	341.1	118	7,999
Dec	346.2	+1.7	346.5	343.6	1,188	27,276
Feb	348.7	+1.7	348.4	347.9	156	8,698
Apr	351.1	+1.8	-	-	113	4,383
Total					32,932	183,206

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	415.2	-	418.5	413.0	2,533	7,729
Oct	401.2	+1.0	404.4	399.0	740	7,874
Jan	393.2	+0.5	393.0	392.5	44	1,638
Apr	393.2	+0.5	396.0	396.0	-	129
Total					3,317	17,370

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	206.55	+7.70	203.00	198.00	25	109
Sep	176.55	+3.70	177.50	173.00	375	5,705
Dec	166.55	+3.70	168.85	164.50	34	643
Jun	166.55	+3.70	-	-	-	95
Total					434	6,552

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	480.7	+10.0	477.0	471.5	40	2
Jul	481.2	+10.0	482.0	467.5	11,651	35,360
Sep	486.0	+10.1	487.0	475.0	4,277	29,132
Dec	492.8	+10.2	493.0	480.5	439	8,878
Jan	494.8	+10.2	-	-	-	17
Mar	499.8	+10.3	498.0	494.0	804	8,763
Total					17,307	92,327

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	18.98	+0.09	19.22	18.86	47,044	100k
Sep	19.12	+0.08	19.30	19.10	11,209	40,717
Oct	19.23	+0.05	19.42	19.20	6,706	27,128
Nov	19.35	+0.06	19.48	19.35	2,193	18,963
Dec	19.48	+0.10	19.57	19.46	8,931	40,666
Jan	19.50	+0.06	19.59	19.50	708	17,931
Total					107,189	388,367

■ CRUDE OIL IPE ($/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Aug	17.78	+0.11	17.97	17.77	10,443	76,759
Sep	17.97	+0.07	18.12	17.96	5,380	33,573
Oct	18.13	+0.03	18.28	18.12	2,312	13,752
Nov	18.27	-0.01	18.41	18.26	1,406	8,909
Dec	18.40	+0.05	18.50	18.37	3,794	14,350
Jan	18.41	+0.05	18.47	18.41	755	7,493
Total					n/a	n/a

■ HEATING OIL NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	51.35	+0.02	52.05	51.30	10,217	23,986
Aug	51.80	+0.04	52.30	51.55	7,849	34,439
Sep	52.50	+0.14	53.00	52.50	4,911	16,372
Oct	53.50	+0.14	54.00	53.10	3,727	15,747
Nov	54.70	+0.39	55.00	54.70	1,331	12,781
Dec	55.40	+0.24	55.85	55.40	2,221	16,318
Total					33,134	153,417

■ GAS OIL IPE ($/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	160.25	+1.75	161.00	160.00	3,918	19,650
Aug	162.00	+1.50	162.75	162.00	2,215	14,959
Sep	164.25	+1.50	165.00	164.25	830	6,035
Oct	167.00	+1.50	167.75	167.00	281	6,658
Nov	169.00	+1.50	169.75	169.00	123	4,011
Dec	170.50	+1.25	171.50	170.50	1,310	9,190
Total					11,711	69,111

■ NATURAL GAS NYMEX (10,000 mmBtu.; $/mmBtu.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	2.265	+0.030	2.275	2.240	23,267	25,285
Aug	2.260	+0.025	2.270	2.245	8,762	32,093
Sep	2.250	+0.018	2.260	2.240	3,556	19,160
Oct	2.255	+0.017	2.260	2.245	1,696	20,866
Nov	2.370	+0.018	2.375	2.365	361	9,518
Dec	2.505	+0.018	2.510	2.500	619	13,306
Total					39,804	202,749

■ UNLEADED GASOLINE
NYMEX (42,000 US galls.; c/US galls.)

	Latest price	Day's change	High	Low	Vol	Open int
Jul	55.30	-0.18	56.30	55.25	13,785	23,152
Aug	55.10	-0.01	55.90	55.00	8,145	27,885
Sep	54.90	+0.17	55.50	54.85	2,021	8,556
Oct	54.15	+0.35	54.60	54.25	1,072	5,440
Nov	54.00	+0.80	54.25	54.00	10	2,169
Dec	53.85	+0.70	54.10	53.75	749	4,974
Total					33,661	78,896

GRAINS AND OIL SEEDS

■ WHEAT LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	77.50	-1.25	78.00	77.00	152	702
Sep	83.25	-	-	-	-	176
Nov	86.25	-	86.50	85.90	211	3,916
Jan	88.25	-	88.25	88.00	18	1,781
Mar	90.25	-0.20	-	-	-	933
May	92.25	-0.15	92.50	92.25	60	523
Total					441	8,022

■ WHEAT CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	329.75	-5	334.00	328.00	13,140	26,758
Sep	337.00	-5	341.00	336.00	5,956	27,398
Dec	350.50	-3.5	353.00	348.00	3,785	23,118
Mar	355.75	-3.25	359.00	353.00	375	2,912
May	353.00	-0.5	353.50	351.00	53	222
Jul	347.75	-0.25	349.00	346.50	272	1,388
Total					23,597	81,815

■ MAIZE CBT (5,000 bu min; cents/56lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	260.50	-5	264.50	259.00	23,308	87,655
Sep	245.00	-2.25	246.50	243.75	10,112	47,647
Dec	243.25	-1.25	243.75	241.75	25,718	130,866
Mar	250.25	-0.5	250.75	248.75	4,096	18,204
May	255.25	-	255.25	253.50	91	2,030
Jul	258.50	-0.25	258.75	256.00	179	3,771
Total					63,817	274,064

■ BARLEY LIFFE (100 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Sep	80.00	-	-	-	-	34
Nov	83.00	-	83.00	83.00	23	1,165
Jan	83.00	-	-	-	-	164
Mar	87.00	-	-	-	-	14
May	88.50	-	-	-	-	4
Total					23	1,381

■ SOYABEANS CBT (5,000bu min; cents/60lb bushel)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	836.00	+10.00	838.00	817.00	24,877	41,828
Aug	768.00	+1.25	770.00	756.00	8,354	28,523
Sep	683.00	-2.75	685.00	678.00	1,653	10,869
Nov	652.75	-2.00	655.00	648.00	14,337	57,144
Jan	653.50	-3.75	655.00	650.00	938	8,294
Mar	658.00	-4.25	660.00	655.00	517	2,153
Total					51,238	151,803

■ SOYABEAN OIL CBT (60,000lbs; cents/lb)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	22.75	-0.1	22.89	22.70	9,264	30,672
Aug	22.91	-0.12	23.04	22.88	6,655	19,810
Sep	23.08	-0.12	23.20	23.05	1,539	10,070
Oct	23.09	-0.09	23.20	23.05	1,283	12,071
Dec	23.26	-0.17	23.38	23.21	5,630	25,485
Jan	23.35	-0.18	23.45	23.35	793	2,217
Total					25,854	102,730

■ SOYABEAN MEAL CBT (100 tons; $/ton)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	273.7	+2.8	276.0	267.0	9,715	27,612
Aug	250.2	+1.6	251.5	245.0	7,171	21,199
Sep	229.7	+1.4	230.0	225.0	2,595	13,834
Oct	216.0	+0.5	218.5	215.3	1,151	13,643
Dec	211.9	+0.6	212.5	209.2	2,825	27,624
Jan	209.5	+0.2	208.0	207.2	188	2,896
Total					23,859	111,902

■ POTATOES LIFFE (20 tonnes; £ per tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	35.0	-	-	-	-	9
Mar	60.0	-6.0	-	-	-	-
Apr	64.0	-6.0	69.0	63.0	107	705
May	79.0	-10.9	-	-	-	-
Jun	89.0	-6.9	-	-	-	-
Total					107	714

■ FREIGHT (BIFFEX) LIFFE ($10/index point)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	1270	-5	1265	1265	6	411
Jul	1180	+4	1185	1180	21	1,252
Aug	1150	+3	1150	1150	10	527
Oct	1345	+9	1350	1345	10	857
Jan	1365	-	-	-	-	77
Total					47	3,124

	Close	Prev
BFI	1280	1282

FUTURES DATA
All futures data supplied by CMS.

Tea
There was fair demand for tea, The Tea Brokers' Association reports. In landed teas, the few Kenyas on offer met good competition; brighter types were about firm, but mediums were up to 8 pence lower. Other East Africans eased by between 4 pence and 6 pence, except for selected lines which held steady. Offshore Kenyas dropped by between 2 pence and 5 pence, while colory central Africans rules firm to dearer, but plainer descriptions lost ground. Quotations for this sale. Landed: best available 149p; good 146p; good medium 133p; medium 125p; low medium 88p. The highest price realised this week was 149p for a Kenya PF1.

SOFTS

■ COCOA LIFFE (10 tonnes; £/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1115	+22	1120	1085	1,501	18,382
Sep	1130	+18	1135	1103	4,300	30,982
Dec	1130	+20	1133	1104	1,323	34,549
Mar	1140	+20	1145	1115	867	43,079
May	1151	+21	1144	1127	550	17,121
Jul	1161	+20	1159	1143	170	5,494
Total					11,024	171,378

■ COCOA CSCE (10 tonnes; $/tonnes)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1663	+57	1653	1566	70	473
Sep	1696	+63	1699	1616	4,908	37,794
Dec	1735	+60	1737	1658	1,446	20,322
Mar	1760	+73	1760	1690	1,149	22,444
May	1779	+73	1770	1725	135	8,819
Jul	1799	+73	1785	1744	9	627
Total					8,029	96,369

■ COCOA (ICCO) (SDR's/tonne)

Jun 20	Price	Prev. day
Daily	1255.63	1282.30

■ COFFEE LIFFE (5 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	1823	-17	1830	1787	637	7,896
Sep	1845	-15	1867	1805	1,821	24,367
Nov	1830	-11	1837	1790	343	10,224
Jan	1800	-11	1800	1770	86	3,345
Mar	1785	+4	1760	1790	10	574
May	1785	+4	-	-	-	53
Total					2,897	46,459

■ COFFEE 'C' CSCE (37,500lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	194.85	-4.30	206.00	190.00	538	1,340
Sep	175.45	-4.05	185.00	170.00	4,117	10,870
Dec	154.15	-5.35	161.00	149.50	598	4,773
Mar	144.75	-6.00	151.25	144.75	325	2,566
May	140.65	-5.60	146.00	140.50	107	688
Jul	138.15	-5.60	141.00	138.50	80	209
Total					5,821	20,688

■ COFFEE (ICO) (US cents/pound)

Jun 20		Prev. day
Comp. daily	147.23	146.07
15 day average	160.54	164.29

■ WHITE SUGAR LIFFE (50 tonnes; $/tonne)

	Sett price	Day's change	High	Low	Vol	Open int
Aug	319.1	-2.1	321.0	318.6	2,014	14,428
Oct	314.5	-0.8	315.5	314.0	515	8,064
Dec	312.2	-0.5	312.9	312.0	93	3,393
Mar	312.2	-0.4	313.0	311.6	302	3,897
May	311.1	-1.2	211.5	310.8	4	956
Aug	310.8	+0.3	310.0	310.0	20	904
Total					3,858	31,741

■ SUGAR '11' CSCE (112,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	11.13	+0.07	11.23	11.02	22,234	39,491
Oct	11.11	+0.08	11.20	11.00	32,107	84,891
Mar	11.07	+0.07	11.13	10.98	5,774	35,638
May	10.96	+0.04	11.00	10.92	1,347	7,907
Jul	10.86	+0.03	10.90	10.84	628	3,698
Oct	10.75	+0.04	10.81	10.80	53	1,011
Total					62,269	173,289

■ COTTON NYCE (50,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.09	-0.61	72.70	71.75	6,822	8,242
Oct	74.90	-0.20	75.20	74.40	2,391	10,726
Dec	75.28	-0.40	75.80	74.97	3,610	35,250
Mar	76.63	-0.32	76.85	76.22	756	6,025
May	77.20	-0.25	77.44	76.95	119	1,224
Jul	77.50	-0.15	77.65	77.35	70	701
Total					13,791	64,624

■ ORANGE JUICE NYCE (15,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	72.65	-1.90	75.25	71.30	1,897	12,850
Sep	75.50	-1.40	77.80	74.05	2,807	13,496
Nov	78.40	-1.35	80.50	77.20	425	5,041
Jan	80.10	-2.45	83.25	73.50	83	2,112
Mar	83.00	-2.55	86.50	83.00	53	1,466
May	85.90	-2.65	86.00	86.50	102	236
Total					5,395	35,380

VOLUME DATA
Open Interest and Volume data shown for contracts traded on COMEX, NYMEX, CBT, NYCE, CME, CSCE and IPE Crude Oil are one day in arrears. Volume & Open Interest totals are for all traded months.

INDICES

■ Reuters (Base: 18/9/31 = 100)

Jun 23	Jun 20	month ago	year ago
1995.3	2010.1	2015.5	2003.9

■ CRB Futures (Base: 1967 = 100)

Jun 20	Jun 19	month ago	year ago
240.52	242.95		

■ GSCI Spot (Base: 1970 = 100)

Jun 20	Jun 19	month ago	year ago
183.63	184.33	199.73	200.82

LME WAREHOUSE STOCKS (tonnes)

Aluminium	-2,850	to	885,175
Aluminium alloy	-40	to	29,880
Copper	+225	to	121,775
Lead	-675	to	115,650
Nickel	+54	to	52,506
Zinc	+450	to	424,025
Tin	-875	to	11,895

MEAT AND LIVESTOCK

■ LIVE CATTLE CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jun	64.700	-0.500	65.600	64.600	1,183	1,573
Aug	63.950	+0.500	64.075	63.225	4,853	42,711
Oct	67.100	+0.700	67.175	66.225	1,886	23,867
Dec	68.775	+0.875	69.850	68.875	759	13,332
Feb	70.775	+0.650	70.850	70.000	292	6,350
Apr	72.825	+0.550	72.900	72.225	262	2,781
Total					9,086	91,495

■ LEAN HOGS CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	82.650	+0.700	83.000	82.380	2,082	9,663
Aug	79.425	+0.100	80.200	79.250	2,016	11,708
Oct	71.450	-0.125	72.100	71.050	587	7,093
Dec	68.275	-0.375	69.050	67.800	296	4,337
Feb	66.975	-0.375	67.650	66.600	126	1,787
Apr	63.350	+0.125	63.850	63.500	23	995
Total					5,161	36,498

■ PORK BELLIES CME (40,000lbs; cents/lbs)

	Sett price	Day's change	High	Low	Vol	Open int
Jul	80.675	-0.825	82.800	80.300	1,114	3,403
Aug	80.500	-0.850	82.350	80.200	763	3,005
Feb	71.800	-0.275	73.050	71.500	14	486
Mar	70.525	-0.225	-	70.525	2	17
Jul	72.500	-0.500	-	72.500	1	1
Total					1,891	8,919

LONDON TRADED OPTIONS

Strike price $ tonne — Calls — — Puts —

■ ALUMINIUM (99.7%) LME	Jul	Oct	Jul	Oct
1500	74	110	-	18
1600	6	50	32	56
1700	-	16	126	122
■ COPPER (Grade A) LME	**Jul**	**Oct**	**Jul**	**Oct**
2400	240	140	-	62
2500	143	88	3	109
2600	62	52	22	171
■ COFFEE LIFFE	**Jul**	**Sep**	**Jul**	**Sep**
1800	292	195	307	150
1850	272	175	337	180
1900	254	156	369	211
■ COCOA LIFFE	**Jul**	**Sep**	**Jul**	**Sep**
1000	98	138	-	9
1025	73	120	-	15
1050	48	102	-	22
■ BRENT CRUDE IPE	**Aug**	**Sep**	**Aug**	**Sep**
1750	72	-	-	-
1800	53	87	-	-
1850	33	60	-	-

LONDON SPOT MARKETS

■ CRUDE OIL FOB (per barrel)

		+or-
Dubai	$16.75-6.82	+0.19
Brent Blend (dated)	$17.54-7.55	+0.475
Brent Blend (Aug)	$17.74-7.75	+0.225
W.T.I.	$18.93-8.95w	+0.21

■ OIL PRODUCTS NWE prompt delivery CIF (tonne)

Premium Gasoline	$196-198	
Gas Oil	$160-161	+2
Heavy Fuel Oil	$80-82	
Naphtha	$178-180	
Jet fuel	$176-178	+2
Diesel	$165-167	+2.5

■ NATURAL GAS (Pence/therm)

Bacton (Jul)	9.00-9.25	-0.30

Petroleum Argus. Tel. London (0171) 359 8792

IPE (Jul)	9.250	-0.250

■ OTHER

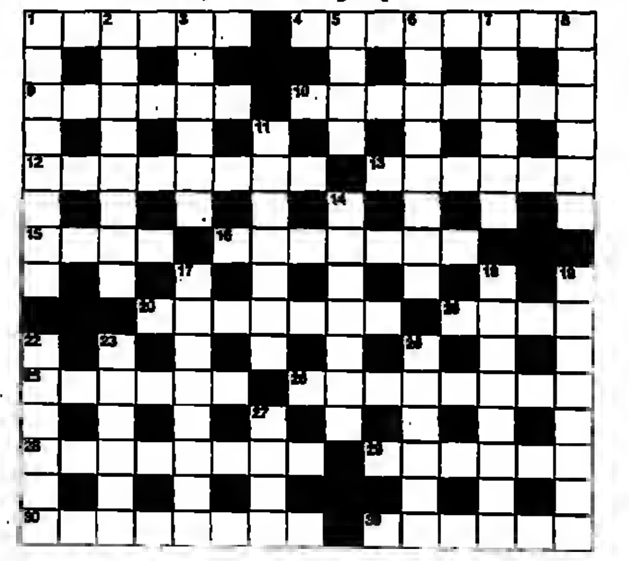
Gold (per troy oz)‡	$338.45	
Silver (per troy oz)‡	476.00c	
Platinum (per troy oz.)	$421.00	+1.00
Palladium (per troy oz.)	$200.00	
Copper	126.0c	+1.0
Lead (US prod.)	45.00c	
Tin (Kuala Lumpur)	13.79r	-0.19
Tin (New York)	260.5	
Cattle (live weight)	91.78p	+1.64*
Sheep (live weight)	118.19p	+1.29*
Pigs (live weight)†	92.07p	-5.15*
Lon. day sugar (raw)	$271.70	-7.70
Lon. day sugar (wte)	$325.50	-3.50
Barley (Eng. feed)	Unq	
Maize (US No3 Yellow)	£109.00	
Wheat (US Dark North)	Unq	
Rubber (Jul)¥	71.00p	
Rubber (Aug)¥	71.00p	
Rubber (KL RSS No1)	276.0x	-2.0
Coconut Oil (Phil)§	645.0y	-5.0
Palm Oil (Malay.)§	530.0w	
Copra (Phil)§	$415.0y	
Soyabeans (US)	209.0	
Cotton Outlook'A' index	81.05c	
Wooltops (64s Super)	446p	-2

£ per tonne unless otherwise stated. p pence/kg. c cents/lb. r ringgit/kg. y Jul. w Jun/Jul. † London Physical. § CIF Rotterdam. ‡ Bullion market close. * Change on week. ¶ Based on 2,141 head of pigs sold.

JOTTER PAD

CROSSWORD

No.9,409 Set by QUARK



ACROSS
1 A big one for a VIP (6)
4 Please be prepared for 1 across (3,5)
9 Extreme wickedness without or it's a feeling of hostility (6)
10 Scot turns handle in part of engine (8)
12 It could provide support in the flight (8)
13 The Globe's field of activity (6)
15 It's essential to broadcast the way (4)
16 Greyer university building to be 1 across (7)
20 Supporting pole on 1 across (7)
21 This 1 across is bad luck (4)
25 Display ostentatiously (an unexpected fault round the north) (6)
26 A French piece of land not often seen (8)
28 Secret arm is, yes, representative of a government (8)
29 A little tree in Bosnia, perhaps (6)
30 Kind of soldier's manoeuvre? (8)
31 Mean and capable of inflicting pain (6)

DOWN
1 County 1 across (8)
2 P-people in delayed uprising for 1 across (8)
3 US rocket rested on a vessel (6)
5 Some prepared a mild 1 across (4)
6 It shows 19 go by the drink (8)
7 English handle with bit of lead coating (6)
8 Right of admission to course (6)
11 Bad government disorder (7)
14 Tony's company, in short, could produce rich businessmen (7)
17 Covers for the raised structure wrong? (6,2)
18 Spare man newly created 1 across (8)
19 Kind of card correspondence (8)
22 Wine and dine after lifting iron to make one incapable (6)
23 1 across this is 31 (6)
24 Umpire's verdict leading to carry-on? (3,3)
27 Endlessly short 1 across (4)

Solution to Saturday's prize puzzle on Saturday July 5.
Solution to yesterday's prize puzzle on Monday July 7.

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OFFSHORE AND OVERSEAS

BERMUDA (SIB RECOGNISED)

Fidelity Currency Funds Ltd

Jupiter Asset Management (Bermuda) Ltd

Newport Investment Management

Orion Fund Limited

Rothschild Asset Management - Contd.

Royal Bk of Canada O/S Fd Mgrs Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

AIB Fund Management Ltd

BT Fund Managers (Ireland) Ltd (a)

Lazard Investment Funds Ltd

Argonta European Hedge Fund plc

Asia Dynamic Growth Fund Plc

Asia Small Cos Growth Fund (a)

Asian Diversified Equity Fund Plc

Asian Emerging Markets Fund Plc

Asian Gateway Fund Plc

Asian Growth Fund Plc

HSBC UK Equity Plus III Plc

HSBC UK Equity Plus IV Plc

HSBC UK Equity Plus V Plc

Hansen Ireland Ltd

Value Express Fund Plc

Yamaichi Samsung Dynamic Korea Fund

Yeld Korea Fund

Yeld Taiwan Fund

Berkshire Korea Fund Plc

Blackstone Franks Managers Ireland Ltd

Bordier Invest (Ireland) Ltd

Buchanan Asset Management (Ireland) Ltd

CFP Interest Rate Arbitrage Fund Plc

Scottish Value Management (Ireland) Ltd (a)

Singer & Friedlander Inv Funds Ltd (a)

Calpian Fund

Capital Value Fund Plc

Chemical Ireland Fund Administrators Ltd

Citi Investment Fund (Ireland)

IRELAND (REGULATED)(**)

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (SIB RECOGNISED)

TSB Fund Managers (CI) Ltd

JERSEY (REGULATED)(**)

LUXEMBOURG (SIB RECOGNISED)

Offshore Funds and Insurances

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American Phoenix Investment Portfolios (u)

13 rue Goethe, L-1637 Luxembourg 00 352 4046461

Foreign & Colonial Portfolios Fd Sicav(u)

33 Boulevard Prince Henri, L-1724 Lux 00 352 2286 211

Frontrunner I (u)

GT Global

BAII Asset Management Ltd

Bank Von Ernst & Cie AG

LUXEMBOURG (REGULATED)(**)

OFFSHORE INSURANCES

FT MANAGED FUNDS SERVICE

Offshore Insurances and Other Funds

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	Selling Price	Buying Price	+ or -	Yield Gross
Old Mutual International (Isle of Man) Ltd				
Victory Hse, Prospect Hill, Douglas, IoM				
[illegible]				

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or –	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	♣	422½xd	+1½	482	407½	4,398	7.0	12.7
Bulmer (HP)	♣†	[illegible]	-9½	[illegible]	477	[illegible]	3.4	14.8
Burn St Dist	♣	53½	-3½	102	53	31.7	7.9	13.3
Glenmorangie A		987½xd	+10½	1000	740	134.3	1.7	24.4
B		1082½xd	+22½	1140	965	49.3	0.9	53.5
Grand Met	♣‡†	558½	-1½	613	415	12,405	3.5	18.7
Guinness	♣‡†	580	-3	615½	424	11,189	3.4	18.8
Highland	♣†	328½	—	380	321½	438.2	3.7	15.4
5½pc Cnv Bds		93¼	—	107½	92½	–	–	–
Kirin Y		651½	-2¾	799¼	485¼	6,434	1.6	–
Matthew Clark	♣‡	248	-4½	709	225	219.5	12.1	11.8
Merrydown	♣†	70½	—	141	70½	7.88	8.2	9.5
Seagram C$		$24½	-½	$26½	$20½	6,677	1.2	–

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

GAS DISTRIBUTION

HEALTH CARE

HEALTH CARE - Cont.

HOUSEHOLD GOODS

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

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LONDON SHARE SERVICE

OTHER INVESTMENT TRUSTS

The following investment trusts are not eligible for inclusion in the FTSE Actuaries Share Indices.

Approved by the Inland Revenue

[illegible]

Net asset values supplied by NatWest Securities Limited as a guide only. See guide to London Share Service

INVESTMENT COMPANIES

[illegible]

LEISURE & HOTELS

[illegible]

LIFE ASSURANCE

[illegible]

MEDIA

[illegible]

MEDIA - Cont.

[illegible]

OIL EXPLORATION & PRODUCTION

[illegible]

OIL, INTEGRATED

[illegible]

OTHER FINANCIAL

[illegible]

PAPER, PACKAGING & PRINTING

[illegible]

PHARMACEUTICALS

[illegible]

PROPERTY

[illegible]

RETAILERS, GENERAL - Cont.

[illegible]

SUPPORT SERVICES

[illegible]

PROPERTY - Cont.

[illegible]

RETAILERS, FOOD

[illegible]

RETAILERS, GENERAL

[illegible]

SUPPORT SERVICES - Cont.

[illegible]

TELECOMMUNICATIONS

[illegible]

TEXTILES & APPAREL

[illegible]

TOBACCO

[illegible]

TRANSPORT

[illegible]

WATER

[illegible]

AIM

[illegible]

AIM - Cont.

[illegible]

AMERICANS

[illegible]

CANADIANS

[illegible]

SOUTH AFRICANS

[illegible]

GUIDE TO LONDON SHARE SERVICE

Prices for the London Share Service are delivered by Extel, part of Financial Times Information.

Company classifications are based on those used for the FTSE Actuaries Share Indices.

Closing mid-prices are shown in pence unless otherwise stated. Highs and lows are based on intra-day mid-prices over a rolling 52 week period.

Where stocks are denominated in currencies other than sterling, this is indicated after the name. Prices shown for some of these foreign securities are converted into sterling from latest available local Stock Exchange prices.

Symbols referring to dividend status appear in the notes column daily as a guide to yields and P/E ratios. Dividends and Dividend covers are published on Monday.

Market capitalisation shown is calculated separately for each line of stock quoted.

Earnings used in calculations are based on IIMR 'Headline Earnings' basis.

Price/earnings ratios are based on latest annual reports and accounts and, where possible, are updated on interim figures.

Yields are based on mid-prices, are gross, adjusted for a dividend tax credit of 20 per cent and allow for value of declared distribution and rights.

Estimated Net Asset Values (NAVs) are shown for Investment Trusts, in pence per share, along with the percentage discounts (Dis) or premiums (Pm -) to the current closing share price. The NAV basis assumes prior charges at par value, convertibles converted and warrants exercised if dilution occurs.

- * Highs and lows marked thus have been adjusted to allow for capital changes.
- † Interim since increased or resumed
- ‡ Interim since reduced, passed or deferred
- Figures or report awaited
- Rule 2.1(a)(iv) Overseas incorporated companies listed on an approved exchange.
- ♣ Free annual/interim report available, see details below.
- Rule 4.2(a) Irish incorporated non-listed companies.
- Price at time of suspension
- ¶ Indicated dividend yield after pending scrip and/or rights issue
- Merger bid or reorganisation in progress
- § Forecast dividend yield; p/e based on earnings updated by latest interim statement.
- ◆ Unregulated collective investment scheme.

a Yield based on assumed dividend. b Figures based on prospectus or other official estimates. g Assumed dividend yield after rights issue. h Assumed dividend yield after scrip issue. n Rights issue pending. q Earnings based on preliminary figures. s Dividend yield excludes a special payment. t Indicated dividend yield, p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend yield, p/e based on previous year's earnings. z Dividend yield includes a special payment.

F Yield based on prospectus or other official estimates for 1996-97. G Assumed yield after pending scrip and/or rights issue. H Yield based on prospectus or other official estimates for 1997. K Yield based on prospectus or other official estimates for 1998. L Estimated annualised yield, p/e based on latest annual earnings. M Yield based on prospectus or other official estimates for 1997-98. R Dividend is paid in whole or part as a

FID (Foreign Income Dividend) S Forecast annualised yield, p/e based on prospectus or other official estimates. W Pro forma figures. Z Dividend yield to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xi ex capital distribution.

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LONDON STOCK EXCHANGE

FTSE 100 down again but closes off lows

MARKET REPORT

By Steve Thompson,
UK Stock Market Editor

The sell-off in the UK equity market stretched to a sixth consecutive trading session yesterday, but there were signs that much of the recent spate of downside pressure had been absorbed by the market.

The FTSE 100 index closed the session a net 18.1 off at 4,575.98, lifting its decline over the past six trading days to over 200 points, or 4.3 per cent. But it finished well above the session low.

That was 4,547.0, during the late morning, when London was caught in the grip of a fresb burst of nervousness abont the possibility of a market-hitting Budget on July 2, which might well be followed up with another increase in UK interest rates.

London's late rally, which dealers said had been encouraged by a pick-up in sentiment in the futures market, was all the more impressive in that Wall Street had come in looking weak.

The Dow Jones Industrial Average was down almost 60 points an hour after London closed for the day, although dealers pointed out that Wall Street's retreat was from an all-time high, as against London's fall.

The late rally was mostly concentrated in the leaders, with the second-liners finishing only a fraction above the session low, measured by the FTSE 250, while the smaller cepitalised stocks were left languishing at the bottom of the day's trading range.

At the finish, the FTSE 250 posted a 30.2 fall at 4,454.8, and the FTSE SmallCap index dropped 14.7 to 2,246.4. The FTSE All-Share slipped 10.1 to 2,177.79.

Another reason for the late burst of support across the leader board was a fresh buzz of takeover speculation, whicb began in the banks and insurance sectors and spilled over into other areas of the market, most notably the defence-engineering markets.

In the latter, GEC made rapid progress, advancing almost 5 per cent as hints that the long-running merger rumours involving the company with British Aerospace may yet prove correct.

NatWest, the centre of intense speculation in recent days, was easily the top performer in the FTSE 100. Weekend press reports pinpointed Barclays Bank as a potential predator and also cited numerous other overseas and domestic banks as possible partners.

Another hint in the market was that Norwich Union might be in the firing line for a potential bidder.

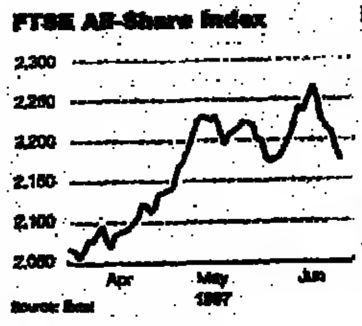
Asked about the likely direction of the market in the short term, a senior marketmaker said he felt the market had seen the worst of the sell-off.

The strategy team at Merrill Lynch pointed out in the broker's latest note that the theoretical fall in the UK market, in the event of the abolition of the tax credit, would be approximately 7 per cent.

But the strategists continued: "Given the cash levels of institutions, the expectations of fund managers and the healthly outlook for corporate profits, we do not expect a correction of this magnitude."

Turnover in equities at 6pm was a healthy 871.5m shares.

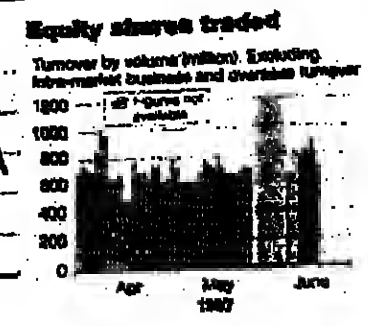
FTSE All-Share Index



Source: Datastream

Equity shares traded

Turnover by volume (million). Excluding: intra-market business and overseas turnover



Indices and ratios

FTSE 100	4575.8	-18.1	FT 30	2970.30	-1.7
FTSE 250	4454.8	-30.2	FTSE Non-Fins p/e	18.56	18.68
FTSE 350	2219.0	-10.1	FTSE 100 Fut Jun	4654.0	-2.0
FTSE All-Share	2177.79	-10.14	10 yr Gilt yield	7.22	7.17
FTSE All-Share yield	3.56	3.56	Long gilt/equity yld ratio	2.04	2.03

Best performing sectors

1. Electronic & Elect Equip ....+1.9
2. Gas Distribution ....+1.2
3. Health Care ....+0.2
4. Extractive Inds ....+0.2
5. Telecommunications ....+0.2

Worst performing sectors

1. Tobacco ....-3.8
2. Chemicals ....-2.0
3. Retailers: Food ....-1.3
4. Diversified Inds ....-1.2
5. Retailer: General ....-1.1

ICI hit as brokers cut back

By Peter John and Martin Brice

ICI, down 41 at 807½p, recorded the heaviest fundamental slide in the FTSE 100 index as a series of one-on-one conference calls to analysts led to savage cuts in profit forecasts.

Most high profile of the rash of downgradings was a change of heart from Merrill Lynch, the US broker. US investors have been steady buyers of the shares recently. At the last official count on May 23, 10.01 per cent was held in American Depositary Receipts. It is felt that stake has risen recently and a further 2 to 3 per cent may have been bonght through the UK market.

Merrill retained its "accumulate" stance but slashed its current year forecast by £80m to £450m. It is also understood to have reduced its 1998 estimate to £640m from £720m.

Merrill blamed the rise in sterling, which hit a 59-month high against the D-Mark, for the estimate cuts. ICI said that each pfennig that sterling gains against the D-Mark hits trading profits by £2m. Over the past year, sterling has risen 50 pfennigs.

Other brokers were also taking their figures lower following the second-quarter trading update. Among them, Sutherlands came down to a bearish £380m from £490m and weakened its stance to "hold".

National Westminster bounced 37 to 783½p on growing speculation about a takeover or merger following last week's news of problems within the investment banking arm.

Barclays was mentioned in the weekend press as a strong contender with some press suggestions that it was lining up a £15bn bid. However, many analysts said a tie-up would come in for heavy regulatory flak as a combined group would have some 40 per cent of UK retail banking.

On the other hand, Barclays is only the latest contender. HSBC has also been cited. The bank needs to boost its Midland arm but could also be expected to hit monopoly problems.

Standard tipped

Bank of Scotland was being discussed although several analysts preferred Standard Chartered as a potential partner. Standard has successfully turned aronnd its overseas operations and has a very small presence in the UK.

It has some links with NatWest, which closed its trade processing operations in Asia recently and decided instead to use Standard. However, other brokers said Standard had not previously flagged UK expansionist ambitions.

Barclays gained 5½ to £11.69 and Bank of Scotland 3½ to 378p while Standard fell 1½ to 874p. NatWest was further helped by Goldman Sachs, which raised the stock to "market outperformer" from "market performer". Other brokers, including Panmure Gordon and Credit Lyonnais Laing, were also positive on the stock.

British Steel eased to 147¾p as the stock went ex a 7p net dividend. The slide was compounded by fears of the strength of sterling.

GEC was up 15½ to 354p in volume of 11m on a recurrence in the weekend press of the chat that the company might merge with BAe, off a penny to £13.48½.

Recently floated banks, Halifax and Alliance & Leicester, dropped 20½ to 749½p and 8½ to 594½p as BZW took the two stocks off the buy list following strong performance recently.

Despite a sharp fall in UK shares overall, Halifax and Alliance surged on Friday as institutions loaded up with stock ahead of yesterday's FTSE debut.

The inclusion of the two stocks increased the retail banking sector's representation in the FTSE 100's capitalisation from around 18.5 per cent to more than 21 per cent. Financial stocks as a whole currently have a weighting of 24.09 per cent.

BAT Industries dropped 21½ to 567½p after the company said that it expected its Brown & Williamson unit to make an initial payment of around $1.7bn under a US tobacco settlement.

Analysts said Friday's agreement between US states and the industry was reasonably positive for the company, but its shares were hit by profit-taking.

Under the agreement, tobacco companies will pay $368.5bn over 25 years in compensation for the cost of treating smoking-related illnesses in return for immunity from further litigation. Brown & Williamson is the third largest cigarette-maker in the US, with brands such as Kent and Lucky Strike. Imperial Tobacco and Gallaher, which do not have the same exposure to US litigation, were also sharply lower. Imperial fell 13½ to 393½p and Gallaher 18 to 282p.

Still in engineering, Molins, which makes machinery for manufacturing cigarettes, was marked down 10 to 507½p on the back of concerns over the implications of the tobacco settlement in the US.

British Borneo held up in a falling market, closing only a penny off at £13.77½. It was raised to "buy" from "hold" by BZW, whicb named the company as its preferred smaller exploration and production oil stock.

WH Smith was the biggest faller in the FTSE 250 as its shares gave up 35 to 376½p as analysts digested news of the planned departure of its chief executive, Mr Bill Cockburn, who will join BT. Mr Jeremy Hardie, chairman, said: "Bill Cockburn joined us in November 1995, and has been a catalyst for change within the group."

Some traders said the sell-off was overdone, and pointed out that the decline came despite the company saying its sales for the year to May 1997 would be in line with market expectations.

Shares in Eurotunnel eased to 67½p on a report that shareholders were close to gathering sufficient votes to block the restructuring plan under negotiation between the company and its creditor banks.

Shares in Compass, the largest catering group in the world, headed south after it said it was to pay £227m for SHRM, a French food company, in a deal it said would be earnings-enhancing in the first year.

However, the shares fell 15 to 702p during the day on uncertainties over the terms of the convertible bond issue, and slight surprise among analysts at the size of the deal. Analysts at Merrill Lynch estimate the deal is earnings-enhancing to the tune of 4.5 per cent in the first year.

Mounting concerns about the loss of both top executives and an equity stake in terrestrial digital TV sent BSkyB down 11 to 486½p. CSFB said fundamental value was 350p to 400p.

FT 30 INDEX

	Jun 23	Jun 20	Jun 19	Jun 18	Jun 17	Yr ago	*High	*Low
FT 30	2970.3	2972.0	3015.1	3014.0	3024.4	2735.9	3077.4	2868.8
Ord. div. yield	3.71	3.70	3.65	3.65	3.63	4.03	4.22	3.56
P/E ratio net	17.90	17.94	18.20	18.18	18.27	16.38	18.64	15.80
P/E ratio nil	17.72	17.76	18.02	18.01	18.08	18.10	18.45	15.71

FT 30 since compilation: high 3077.4 13/06/97; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2976.7	2954.2	2961.6	2962.0	2949.4	2953.9	2960.4	2960.1	2968.7	2977.3	2945.5

	Jun 23	Jun 20	Jun 19	Jun 18	Jun 17	Yr ago
SEAQ bargains	53,862	49,805	44,837	45,854	52,518	29,173
Equity turnover (£m)†	–	NA	NA	2582.8	3462.5	1867.8
Equity bargains†	–	NA	NA	42,783	49,776	35,507
Shares traded (m)†	–	NA	NA	707.3	607.3	739.4

†Excluding intra-market and overseas turnover but including Crest turnover.
 *For 1997.

London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	303	Total Highs	32	Total contracts	39,860
Total Falls	1,401	Total Lows	164	Calls	21,136
Same	1,366			Puts	18,724

Jun 23 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	4605.0	4580.0	-24.0	4606.0	4525.0	14987	64130
Dec	-	4638.0	-23.0	-	-	0	2239

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Sep	-	4521.5	-30.0	-	-	0	7108

■ FTSE 100 INDEX OPTION (LIFFE) (*4573) £10 per full index point

	4400 C	4400 P	4450 C	4450 P	4500 C	4500 P	4550 C	4550 P	4600 C	4600 P	4650 C	4650 P	4700 C	4700 P	4750 C	4750 P
Jul	201½	38	164	50	129½	66	98½	85½	72½	109	51	140	35½	176	23	214½
Aug	231	66	194½	79	163	96½	133	116½	106	142	83	170	61½	199	47	235½
Sep	263	86	228	101	197	120	166	140	137½	162½	115	190½	93	219½	73	252½
Oct	288	98	258½	115½	226	133½	196½	151	169½	173	143	199½	120	226½	97½	257½
Dec†	350½	115½			287½	149½			222½	189½			174	244		

Calls 3,384 Puts 6,146

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	4375 C	4375 P	4425 C	4425 P	4475 C	4475 P	4525 C	4525 P	4575 C	4575 P	4625 C	4625 P	4675 C	4675 P	4725 C	4725 P
Jul	220½	32½	181½	43	146	57½	113	74	84½	95	60	120½	41½	152	27½	188
Aug	245	58	209	71	175½	87½	144½	105½	118½	126½	91½	152	70	179½	52½	212
Sep	276	74½	241	89½	208½	105	178	124	150	145	126	168	101½	195	81	223½
Dec			328	122			283	153½			235	192½			158½	240½
Mar†			382½	147½			321½	181½			264½	219½			214	264½

Calls 7,849 Puts 4,985 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt. cap (£m.)	1997 High	1997 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§	F.P.	91.3	1200	782½	Aston Villa	797½		R8.8	1.8	1.4	43.8
	F.P.	14.1	102	42½	Caradon 8	87½		-	-	-	-
-	F.P.	1,946	312½	270½	Gallaher	282	-18	19.25	1.4	8.5	10.7
§140	F.P.	11.3	147½	98½	Heart of Midlthn	111½		-	-	-	-
§120	F.P.	10.3	127½	124½	†Highland Timber	124½		-	-	-	-
100	F.P.	3.75	125	102½	†Integrated As Mg	125¼		-	-	-	-
§	F.P.	3.80	119½	112½	Longbridge Intl	117½		-	-	-	18.4
290	F.P.	6,292	357½	318½	Norwich Union	326½	-2	L10.5	1.8	4.1	17.0
§185	F.P.	118.7	197½	195½	Powderject Pharm	197½		-	-	-	-
100	F.P.	32.8	109½	99½	Reabourne Merlin	109		-	-	-	-
§	F.P.	68.0	227	204½	Royalblue Grp	208	-3½	1.5	2.6	0.9	52.5
§100	F.P.	7.87	120½	110½	†SBS Group	111½		L2.4	2.0	2.7	19.5
§100	F.P.	22.5	112½	107	Topps Tiles	112		-	-	-	11.8
§3	F.P.	5.04	4	3½	Versatile Group	3½		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

RIGHTS OFFERS

Issue price p	Amount paid up	Latest Renun. date	1997 High	1997 Low	Stock	Closing price p	+or-
155	Nil	9/7	15½pm	1½pm	Century Inns	1½pm	
1	Nil	15/7	½pm	½pm	Millwall Hldgs	½pm	
75	Nil	11/7	7½pm	7pm	Waterfall Hldgs	7pm	

pm premium.

FTSE GOLD MINES INDEX

	Jun 20	% chg on day	Jun 18	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (31)	1446.83	-2.4	1483.13	2093.30	2.33	-	2130.03	1446.83
■ Regional Indices								
Africa (14)	1530.31	-2.9	1575.87	2765.99	5.76	24.47	2917.88	1530.31
Australasia (6)	1660.11	-0.6	1670.31	2471.25	3.11	18.77	2401.99	1660.11
North America (11)	1405.81	-2.6	1443.20	1860.51	1.03	57.92	1884.06	1335.84

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial. Latest prices were unavailable for this edition.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Jun 23	Day's chge%	Jun 20	Jun 19	Jun 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	4575.8	-0.4	4593.9	4653.7	4657.0	3710.8	3.56	2.04	17.22	91.23	1954.24
FTSE 250	4454.8	-0.7	4485.0	4492.8	4516.2	4433.3	3.72	1.61	20.93	94.45	1864.34
FTSE 250 ex IT	4464.1	-0.7	4493.4	4501.1	4526.1	4476.1	3.86	1.64	19.79	97.37	1873.68
FTSE 350	2219.0	-0.4	2229.1	2253.2	2258.7	1878.4	3.59	1.95	17.84	44.77	1938.20
FTSE 350 ex IT	2218.4	-0.4	2228.2	2252.7	2258.3	-	3.62	1.96	17.61	12.84	992.44
FTSE 350 Higher Yield	2181.8	-0.4	2189.9	2188.2	2187.1	1798.1	4.84	1.76	14.70	53.19	1598.84
FTSE 350 Lower Yield	2281.8	-0.4	2293.5	2322.9	2332.5	1965.9	2.55	2.28	21.72	35.75	1629.62
FTSE SmallCap	2246.36	-0.6	2261.09	2265.17	2270.52	2228.69	3.17	1.72	22.98	97.86	1908.14
FTSE SmallCap ex IT	2227.24	-0.6	2240.69	2246.29	2252.55	2230.68	3.41	1.80	20.36	40.36	1907.83
FTSE All-Share	2177.79	-0.5	2187.93	2210.20	2213.76	1865.79	3.56	1.94	18.12	43.39	1928.41
FTSE All-Share ex IT	2176.41	-0.4	2186.25	2209.18	2212.84	-	3.61	1.95	17.75	12.06	991.05

■ FTSE Actuaries Industry Sectors

	Jun 23	Day's chge%	Jun 20	Jun 19	Jun 18	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(20)	4367.41	.....	4368.18	4427.85	4474.39	3470.65	3.50	2.01	17.77	88.78	1956.50
12 Extractive Industries(5)	4433.45	+0.2	4425.12	4431.97	4511.11	4397.31	3.56	2.38	14.78	104.80	1355.16
15 Oil, Integrated(3)	4498.58	+0.1	4495.37	4567.18	4618.15	3509.40	3.71	1.95	17.30	94.47	2072.31
15 Oil Exploration & Prod(12)	3649.79	-0.5	3669.83	3723.83	3700.22	2497.86	1.59	2.21	35.63	87.61	2295.89
20 GEN INDUSTRIALS(267)	1927.70	-0.6	1939.60	1953.86	1957.37	2046.94	4.14	1.87	18.13	41.52	1101.36
21 Building & Construction(35)	1384.18	-0.5	1391.08	1396.57	1404.76	1210.07	3.18	1.86	21.07	25.53	1204.41
22 Building Matls & Merchs(30)	1864.36	-0.6	1876.14	1891.81	1895.65	1896.23	4.31	2.78	10.44	41.69	985.27
23 Chemicals(26)	2405.60	-2.0	2453.76	2476.20	2460.62	2446.57	4.59	1.48	18.25	64.32	1200.24
24 Diversified Industrials(16)	1297.62	-1.2	1312.73	1318.62	1318.70	1689.97	5.61	1.99	11.19	37.18	769.18
25 Electronic & Elect Equip(38)	2035.46	+1.9	1998.34	2021.20	2049.00	2358.27	3.87	1.53	21.06	17.86	1090.12
26 Engineering(68)	2561.94	-1.1	2589.55	2608.31	2604.61	2461.09	3.33	2.25	16.68	50.24	1616.35
27 Engineering, Vehicles(13)	2899.59	+0.2	2894.93	2924.64	2932.61	3039.00	3.54	‡	‡	54.75	1581.13
28 Paper, Pckg & Printing(27)	2076.12	-0.5	2086.86	2088.15	2111.01	2608.54	5.06	1.84	13.44	58.25	906.86
29 Textiles & Apparel(14) … 73	[illegible]										
74 Life Assurance(7)	4607.23	-0.6	4634.33	4726.09	4786.54	3326.81	3.82	1.98	16.68	121.00	2012.44
77 Other Financial(29)	3136.52	-0.9	3164.76	3175.48	3168.63	2663.97	3.37	2.01	18.44	61.10	1858.89
79 Property(44)	1944.43	-0.3	1950.13	1981.75	1968.46	1521.30	3.33	1.33	28.25	34.45	1250.75
80 INVESTMENT TRUSTS(127)	3385.69	-0.9	3414.94	3419.15	3421.30	3181.13	2.23	1.17	47.80	43.90	1216.11
89 FTSE All-Share(910)	2177.79	-0.5	2187.93	2210.20	2213.76	1865.79	3.56	1.94	18.12	43.39	1928.41
105 FTSE All-Share ex IT(783)	2176.41	-0.4	2186.25	2209.15	2212.84	-	3.61	1.95	17.75	12.06	991.05
FTSE Fledgling	1267.89	-0.7	1276.70	1279.24	1282.22	1272.66	3.11	0.75	53.47	21.43	1371.01
FTSE Fledgling ex IT	1274.21	-0.5	1283.81	1287.40	1290.66	1289.01	3.46	0.72	60.08	21.22	1379.31
FTSE AIM	1057.2	-0.1	1058.2	1059.3	1063.4	-	0.97	1.21	80.00†	3.39	1024.87

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.06	16.10	High/day	Low/day
FTSE 100	4597.0	4557.2	4569.0	4569.2	4553.4	4557.8	4565.4	4567.2	4573.5	4597.0	4547.0
FTSE 250	4477.3	4472.0	4461.7	4460.1	4454.7	4454.5	4454.4	4453.8	4454.3	4477.7	4453.5
FTSE 350	2229.5	2213.5	2217.1	2217.0	2210.3	2212.0	2214.9	2215.6	2218.1	2229.5	2207.9
FTSE SmallCap	2259.34	2256.97	2253.28	2252.39	2250.77	2250.29	2248.75	2248.29	2246.52	2259.52	2246.35
FTSE All-Share	2188.20	2173.42	2176.46	2176.31	2170.11	2171.62	2174.26	2174.76	2176.93	2188.25	2167.95

Time of FTSE 100 Day's high: 8:31 AM Day's low: 11:47 AM. FTSE 100 1997 High: 4675.8 (23/06/97) Low: 4056.6 (10/01/97)
Time of FTSE All-Share Day's high: 8:31 AM Day's low: 11:47 AM. FTSE All-Share 1997 High: 2177.80 (23/06/97) Low: 1989.78 (02/01/97)

Further information is available on http://www.ftse.com

† Sector P/E ratios greater than 80 and net covers greater than 30 are not shown. ‡ Values are negative. Insert: Millwall (FTSE Fledgling): Quarterley Review Changes: Please refer to FT page 31 on 12/06/97.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i	1,200	502	-4
ASDA Group†	5,200	118½	-1
Abbey National†	5,200	796	-6½
Airtours	307	1056½	-25
Albert Fisher	2,800	46¼	
Alliance & Leicester	3,200	594½	-8½
Allied Domecq†	1,700	422½	+1½

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. Trades of one million or more are rounded down. † Indicates a FTSE 100 index constituent. Source: Extel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Jun 23 / Sch)

[illegible]

BELGIUM/LUXEMBOURG (Jun 23 / Frs.)

[illegible]

CZECH REP (Jun 23 / Koruna)

[illegible]

DENMARK (Jun 23 / Kr)

[illegible]

FINLAND (Jun 23 / Mks)

[illegible]

FRANCE (Jun 23 / Frs.)

[illegible]

GERMANY (Jun 23 / Dm.)

[illegible]

GREECE (Jun 23 / Drachma)

[illegible]

ITALY (Jun 23 / Lira)

[illegible]

NETHERLANDS (Jun 23 / Fls.)

[illegible]

NORWAY (Jun 23 / Kroner)

[illegible]

POLAND (Jun 23 / Zloty)

[illegible]

PORTUGAL (Jun 23 / Escudo)

[illegible]

SPAIN (Jun 23 / Pts.)

[illegible]

SWEDEN (Jun 23 / Kronor)

[illegible]

SWITZERLAND (Jun 23 / Frs.)

[illegible]

TURKEY (Jun 23 / TL(m))

[illegible]

PACIFIC

JAPAN (Jun 23 / Yen)

[illegible]

HONG KONG (Jun 23 / H.K.$)

[illegible]

INDONESIA (Jun 23 / Rupiah)

[illegible]

MALAYSIA (Jun 23 / MYR)

[illegible]

NEW ZEALAND (Jun 23 / NZ $)

[illegible]

SINGAPORE (Jun 23 / S$)

[illegible]

AUSTRALIA (Jun 23 / Aus$)

[illegible]

SOUTH KOREA (Jun 23 / Won)

[illegible]

TAIWAN (Jun 23 / TW $)

[illegible]

THAILAND (Jun 23 / Baht)

[illegible]

AFRICA

SOUTH AFRICA (Jun 23 / Rand)

[illegible]

NORTH AMERICA

CANADA

TORONTO (Jun 23 / Can $) 4 pm close

[illegible]

MONTREAL (Jun 23 / Can $) 4 pm close

[illegible]

Prices supplied by Extel, part of FT Information

NOTES - Prices on this page are as quoted on the individual exchanges and are usually last traded prices. * Calendar year high and low. § Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $

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INDICES

	Jun 23	Jun 20	Jun 19	1997 High		1997 Low	
[illegible]							
India							
BSE Sens.(1979)	4080.20	4083.04	4086.96	4086.26	23/6	3226.24	2/1
Indonesia							
Jakarta Comp.(10/8/82)	719.68	712.22	708.44	719.68	23/6	631.27	15/4
Ireland							
ISEQ Overall(4/1/88)	3356.84	3358.40	3328.80	3358.48	13/6	2726.07	2/1
Italy							
Banca Comm. Ital.(1972)	827.54	822.45	819.48	827.54	23/6	642.86	2/1
MIB General(2/1/97)	1243.0	1237.0	1232.0	1243.00	23/6	991.00	2/1
Japan							
Nikkei 225(16/5/49)	20436.14	20385.54	20507.85	20681.07	16/6	17303.65	10/1
Nikkei 300(1/10/82)	295.17	295.65	295.80	298.59	16/6	251.04	22/1
[illegible]							
Thailand							
Bangkok SET(30/4/75)	504.58	490.25	464.77	868.57	22/1	464.77	19/6
Turkey							
IMKB Nat. 100(1986)	1774.88	1640.00	1607.00	1774.00	23/6	865.88	2/1
WORLD							
MS Capital Intl(1/1/70)	941.0*	941.8	941.7	942.10	20/6	794.58	14/4
CROSS-BORDER							
Eurotrack 100(26/10/90)	2465.47	2463.24	2455.56	2469.04	20/6	1903.88	2/1
FTSE E 100(29/6/90)	2076.02	2077.71	2073.82	2082.06	13/6	1582.89	2/1
HSBC JC Drgn(31/12/88)	(u)	425.28	415.57	428.46	20/1	381.54	29/4
MS Bege Emg(7/1/92)	188.11	187.63	186.63	187.58	20/6	158.74	3/1

INDEX FUTURES

	Open	Sett.Price	Change	High	Low	Est. vol.	Open Int.
■ CAC-40 (200 x Index)							
Jun	2736.0	2759.0	+4.0	2762.0	2725.0	12,221	33,956
Jul	2739.0	2757.0	+4.0	2769.0	2725.0	2,924	9,328
■ DAX							
Sep	3816.0	3779.0	–40.0	3823.5	3763.5	16,633	80,363
Dec	–	3806.5	–40.5	3805.0	–	1,010	1,727

	Open	Sett.Price	Change	High	Low	Est. vol.	Open Int.
■ OMX							
Jun	2349.00	2364.00	+26.75	2364.00	2344.00	5,783	18,897
Jul	2358.00	2371.50	+26.50	2371.50	2352.75	3,595	8,200
■ SOFFEX							
Jun	5551.0	5584.0	+15.5	5594.0	5532.0	3,876	18,696
Jul	5548.0	5590.5	–18.0	5548.0	5548.0	3	437

US INDICES

Composite‡	898.70	897.89	888.08	898.70 (20/6)	737.91 (2/1)	898.70 (20/6/97)	4.40 (1/6/32)
Industrials♥	1054.79	1053.72	1042.58	1054.79 (20/6)	865.42 (11/4)	1054.79 (20/6/97)	3.52 (30/6/32)
Financial	104.16	104.16	103.17	104.16 (19/6)	80.75 (2/1)	104.16 (19/6/97)	7.13 (4/9/74)
NYSE Comp.	467.84	467.76	463.41	467.84 (20/6)	389.47 (11/4)	467.84 (20/6/97)	4.64 (25/4/42)
Amex Comp.	628.27	628.30	626.97	630.10 (13/6)	541.20 (28/4)	630.10 (13/6/97)	524.20 (18/7/96)
NASDAQ Cmp	1447.10	1447.14	1432.43	1447.14 (19/6)	1201.00 (2/4)	1447.14 (19/6/97)	54.87 (3/10/74)

■ RATIOS

	June 20	Jun 13	Jun 6	Year ago
Dow Jones Ind. Div. Yield	1.65	1.64	1.70	2.17
	Jun 18	Jun 11	Jun 4	Year ago
S & P Ind. Div. yield	1.59	1.62	1.69	1.87
S & P Ind. P/E ratio	24.27	24.19	23.52	22.22

■ NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Close price	Change on day
Ph Morris	18,231,300	45⅝	-1⅜
Boo Office	8,012,800	22¾	-⅝
GEC	7,720,800	57⅞	+⅛
Exxon	6,087,800	63⅝	+⅞
IBM	6,804,400	89⅝	+⅜
Wal-Mart	5,925,900	33¼	+⅝
Merck	5,746,100	100⅛	+⅛
Coca Cola	5,494,600	71¼	-⅞
Ford Motor	5,082,900	39⅝	+⅝
Hewlett-Pkd	5,087,500	55	+1⅜

■ TRADING ACTIVITY

● Volume (million)	Jun 20	Jun 19	Jun 18
New York SE	656.490	541.110	491.683
Amex	28.810	27.009	22.622
NASDAQ	623.720	652.409	598.940
NYSE			
Issues Traded	3,356	3,374	3,354
Rises	1,109	1,742	1,198
Falls	1,485	790	1,300
Unchanged	792	842	868
New Highs	288	368	229
New Lows	15	14	21

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
■ S&P 500							
Sep	904.10	907.15	+2.30	907.15	901.85	50,078	173,539
Dec	913.20	914.90	+0.55	916.70	912.30	155	4,122

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
■ Nikkei 225							
Sep	20530.0	20410.0	-80.0	20580.0	20410.0	7,968	156,409

Open interest figures for previous day.

* Sat June 21: Taiwan Weighted Price 8893.89; Korea Comp Ex 769.40. Base values of all indices are 100 except: Australia All Ord and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., BVL30, SBF250, CAC40, SPL Euro Top-100, ISEQ Overall; Toronto Comp./Met & Mins, DAX – all 1,000; SMI – 1500; JSE Gold – 255.7; JSE 25 Ind – 264.3; IMKB Nat. 100 - 1; NYSE All Common – 50; Stand & Poor's – 10 and Amex Comp – 550. §§ Montreal. ♦ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index Jun 23 - 3748.70 -39.75. † Correction. * Calculated at 15.00 GMT. ¤ Excluding bonds. ‡ Industrial, plus Utilities, Financial and Transportation. ♦ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ♥ Subject to official recalculation.

■ TOKYO - MOST ACTIVE STOCKS: Monday, June 23, 1997

	Stocks Traded	Closing Prices	Change on day
Fujitsu	10.0m	1590	+20
Nippon Steel Cp	5.6m	351	+1
Sakura Bank	4.5m	842	-22
Hitachi	4.3m	1340	+10
NKK Corp	3.5m	237	+2
LTCB	3.4m	461	+21
Nisshin Steel	3.4m	303	
Sanwa Bank	3.3m	1640	-30
NEC Corp	3.3m	1670	+20
Shinko Electric	3.3m	461	-29

NEW YORK STOCK EXCHANGE PRICES

3:30 pm June 23

1997 High	Low	Stock	Div	Yld %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
		- A -								
32 3/8	24 1/4	AAR	0.48	1.5	24	189	31 3/8	21 1/2	21 5/8	+1/8
43 1/8	33 1/8	AMP	1.04	2.5	33	5085	42 1/8	41 1/8	41 5/8	+1/8
103 1/4	78 1/4	AMR			7	4524	98 3/8	94	94	-7/8
37 5/8	21 1/8	ASA	1.20	3.8	20	242	31 1/4	d31 5/8	31 1/4	+1/8
67 5/8	49 3/4	AbbotL	1.00	1.8	26	6676	66 1/2	65 5/8	65 3/4	-1
18 5/8	14 1/8	Abitibi Pr	0.40	2.3	9	20	17 3/4	17 3/4	17 3/4	
20	17 5/8	ABM Ind	0.40	2.1	17	194	19 1/4	19	19 1/8	+1/8
23	17 3/4	Acpincaln			11	50	22	21 7/8	21 7/8	-1/8
70 3/8	58 1/2	ACE Ltd	0.88	1.3	11	327	69 7/8	68 3/4	68 3/4	-1 1/8
10 3/4	16	ACM Gvt In x	0.90	0.7	11	266	10 1/2	10 1/4	10 3/8	
7 3/4	7	ACM GvOpp x	0.63	8.3		146	u7 3/4	7 1/2	7 5/8	+1/8
9 7/8	9 1/4	ACM Man x	0.90	9.2		115	u9 7/8	9 1/8	9 3/4	
18 1/8	6 1/4	Acme Elect				77	6 7/8	6 3/4	6 3/4	-1/8
25	15	Acme Mtls				31	16 7/8	16 1/2	16 3/4	+1/8
10 3/4	14	ACNielsen			34	2387	19 1/4	18 7/8	18 7/8	-1/8
40	27 1/4	Acordia	0.80	2.0	19	6	39 7/8	39 3/4	39 3/4	-1/8
28 3/4	21 1/8	Acuson				1489	24	23 5/8	23 5/8	-1/4
22 7/8	19 3/8	Adams Expr	0.55	2.4	1	298	u22 7/8	22 5/8	22 5/8	-1/8
48 1/2	24 7/8	AdvMic				10383	37 5/8	36 5/8	37	+1/8
27 1/2	18 1/8	Advest Grp	0.12	0.5	16	233	24 1/8	24 1/8	24 1/4	
16 1/2	11 5/8	Advo Inc			19	288	u16 1/2	16 1/4	16 3/8	
76 5/8	61 3/8	Aegon	1.31	1.8	19	4137	72	70 3/4	70 7/8	-7/8
5 1/8	3 1/2	Aerflx				1256	4 1/4	4	4 1/4	+1/8
48 7/8	33	Aero-V	0.80	1.7	15	438	47 7/8	47 1/4	47 1/4	-1/4
74 3/4	48	AES Corp				20	71 3/8	71 3/8	71 1/8	-1/4
112 5/8	73	Aetna	0.80	0.7	60	2939	108 5/8	106 7/8	107 7/8	-1/2
61 1/8	37 1/2	Aflac	0.46	0.9	17	1952	50 1/2	49 7/8	49 7/8	-3/8
34 7/8	19 1/4	AGCO	0.04	0.1	14	20	34 5/8	34 5/8	34 5/8	-1/4
20 3/8	15 3/8	BayNtwks				10302	26 1/4	25 7/8	25 7/8	-1/4
28 1/4	25 1/8	Bay St Gas	1.54	5.8	13	114	27	26 5/8	26 5/8	-1/8
29 3/8	15 1/8	BBN				479	29 1/8	28 7/8	28 7/8	
20 3/4	18 1/8	Bd Tr 1836	1.56	7.8		20	20 1/8	20	20 1/8	+1/4
8 5/8	1 1/2	BEA Inco	0.72	8.8		337	8 1/4	8 5/8	8 1/4	
9 3/4	9	BeaStrat	0.81	8.4		31	u9 3/4	9 5/8	9 5/8	
36 7/8	26	BearSt	0.60	1.7	6	830	35 5/8	35 1/8	35 3/8	+1/8
36 5/8	27 1/2	Beazings	0.64	1.8	17	93	36 1/4	35 1/4	35 1/4	-1 1/8
48 5/8	37	Beckman In	0.60	1.3	18	667	u49 3/4	47 1/4	47 3/4	-1/8
53 1/4	42 1/8	BectnD x	0.52	1.0	22	1516	52 1/4	51 1/4	51 1/4	-1 1/4
21 1/4	16 5/8	BedfdProp	1.00	5.5	15	145	18 5/8	16 3/8	18 1/2	-1/8
78 3/4	59 3/4	BellAtl	2.96	3.9	18	3086	76 1/4	74 7/8	75	-1 3/8
19.92	13 1/16	Bell In			16	63	16 1/8	15 7/8	16 1/8	+3/8
49 5/8	36 1/8	BellSth	1.44	3.1	77	8933	46 1/4	45 3/4	45 3/4	-3/8
42 3/4	33 1/4	Belo A	0.44	1.0	19	918	u43	42 5/8	42 1/2	
43 3/4	33 5/8	Bemis	0.80	1.9	22	544	43 1/4	42 3/4	42 3/4	-1/8
67	63 3/4	Benef 4.3P	4.30	6.6		3	65 1/2	65 1/2	65 1/2	+1/8
75 3/4	50 1/2	Benef x	2.08	2.0	14	667	71 1/4	70 1/2	70 5/8	-1 3/8
22 1/4	22 7/8	Benetton A	0.39	1.2	20	5	u33	33	33	+1/8
1/2	3/16	Berguet B			17	164	11/32	d5/16	11/32	+1/32
31	22	BergBr	0.48	1.9	19	628	30 1/4	30	30	-1/4
48000	33000	BerkHA				240	47400	47125	47400	+400
1624	1088	BerkHB				18	1586	1575	1579	-3
18 3/4	19 7/8	Berry Petr x	0.40	2.7	17	27	15	14 3/4	14 3/4	
14 3/8	7 3/8	Best Buy				2319	13 1/2	13 1/8	13 3/8	-1/4
27 3/4	25 3/4	Beth St 2	2.50	0.1		12	27 5/8	27 3/8	27 3/8	-1/8
53 1/8	49 7/8	Bethlsm Pf	5.00	0.5		19	52 3/4	52 1/2	52 1/4	-1/4
10 3/8	7 5/8	BethSt				4278	u10 1/2	10 1/8	10 1/8	-1/4
67 5/8	54 7/8	Bicbro	1.00	2.3	32	952	66	65 1/4	65 7/8	
18 1/2	12 1/4	BinEnt			28	14744	u16 7/8	16 3/8	16 3/8	-1/8
40	25 1/2	BG ADR x				58	36 1/4	35 3/4	36 1/4	+3/4
22	17 3/8	Bindley W x	0.08	0.4	13	93	21 3/8	20 7/8	21	
22	14 3/4	Birmingm S	0.40	2.5	20	1079	16	15 3/4	16 1/4	
37 3/8	29 5/8	BlDeck x	0.48	1.3	16	1297	u37 3/8	36 3/4	37	-1/4

Continued on next page

NYSE PRICES

4 pm close June 23

Continued from previous page

NASDAQ NATIONAL MARKET

4 pm close June 23

AMEX PRICES

4 pm close June 23

Yearly highs and lows for NYSE reflect the period from Jan 1 1997. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

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Company	Mid price	Change on day	Volume	High	Low	Company	Mid price	Change on day	Volume	High	Low
ActivCard	US$8.75	-0.5	11000	8.25	0.75	Innogenetics	US$11.5		10000	12.75	10.375
Artwork Systems	US$10.25	-0.125	48015	11.125	8.5	Lernout & Hauspie	US$25.25		1750	25.125	25.125
Chemunex	FF15		28000	18	14	Mercer Internat.	US$8.875	-0.125	0	11.75	8.125
Dr Solomon's ADS	US$24.375	+1.5	3000	28.5	18.875	PixTech	US$4		0	0.125	3.875
Esprit Telecom ADS	US$9		150	12.25	5.375	Schoeller-Bleckmann	Sch1015	+57	170000	1005	800

Prices for 23/6/97. Please note that mid prices are now used to calculate highs and lows.
Information about EASDAQ can be found on the Web site at: HTTP://WWW.EASDAQ.be
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Dow turns lower at midsession

AMERICAS

After last week's volatile performance, topped by Friday's historic tobacco deal, Wall Street took a breather as leading indices moved lower by midday, *writes John Labate in New York.*

The Dow Jones Industrial Average was off 59.26 at 7,737.25. Among major industrials, Allied Signal, the aerospace and automotive products manufacturer, fell $1⅝ at $82⅞ while aircraft leader Boeing dropped $1¼ at $55⅝. Chemicals and plastics producer Union Carbide was down $⅞ at $46⅞. The Aluminum Company of America fell $1¼ at $74½.

Bucking the trend among large companies was IBM as it neared its historic high with a rise of $¼ at $90⅝.

"This is a normal pullback after triple witching day," said Mr Ralph Acampora, technical strategist at Prudential Securities.

Friday's markets experienced heavy volume on the day of the simultaneous expiry of options and futures contracts, known as "triple witching".

Following their agreement last Friday, tobacco company stocks traded slightly lower. Philip Morris fell $1 at $44⅝, RJR Nabisco slipped $½ at $34, and Loews dipped $⅜ at $102⅞.

"The market seems to be taking a wait-and-see attitude about the agreement," said Mr. Acampora, who would have expected larger declines if investors were more concerned.

Technology stocks fared better as the technology-rich Nasdaq Composite inched up 0.69 at 1,447.73. Dell Computer rallied as shares rose $2⅝ at $122⅝. Cisco Systems, the networking leader, spiked up $1¼ at $70⅝.

Internet services provider Yahoo plunged $1⅞ at $37⅝ following an analyst's downgrade.

Telecommunications leaders had mixed results in morning trading. AT & T was down $⅝ at $36¼ while its long-distance rival, MCI Communications, rose $⅛, trading at $39⅛. Among the baby Bell stocks, Bell Atlantic fell $1⅛ at $75½ while Ameritech fell $⅝ to $70.

TORONTO moved lower. Banks rallied modestly but golds came in for heavy selling, and at the noon calculation the 300 composite index was off 19.03 at 6,492.40.

Bullion stayed weak and golds picked up where they left off on Friday, sliding steadily lower.

Barrick Gold, off 60 cents in the preceding session, retreated 85 cents to C$31 and Placer Dome fell 75 cents to C$22.95.

Among leading industrials, Alcan Aluminium shed 55 cents to C$48.20 and Bombardier 35 cents to C$31.50. Banks provided one of the brightest upside features. Royal Bank of Canada added 80 cents at C$62.20.

Sao Paulo moves up

SAO PAULO rose strongly in early trading helped by good demand from local mutual funds.

Selected leaders shot forward in what traders described as improved volume and at midsession the Bovespa index was 193 or 1.6 per cent higher at 12,314.

Telebras put on 1.5 per cent to 158.10 pesos and Electrobras surged to 637 pesos, a gain of 3.4 per cent.

CARACAS had an active morning too. At midsession, the IBC index was up 135.44 or 1.7 per cent at 8,144.87.

MEXICO CITY moved lower in light trading. Telmex hardened 4 centavos to 193.4 pesos, but at midsession the IPC index was down 22.60 at 4,416.54.

MARKETS IN PERSPECTIVE

	% change in local currency †				% change sterling †	% change in US $ †
	1 Week	4 Weeks	1 Year	Start of 1997	Start of 1997	Start of 1997
Austria	-0.62	+0.17	+16.40	+14.57	+5.42	+1.90
Belgium	-1.53	+2.10	+38.02	+24.33	+14.28	+10.47
Denmark	+0.54	+2.94	+46.30	+24.09	+14.81	+10.98
Finland	-0.81	-0.18	+59.07	+25.86	+15.66	+11.79
France	-1.89	-0.32	+31.55	+17.83	+8.42	+4.79
Germany	+1.04	+4.60	+46.28	+29.16	+18.89	+14.92
Ireland	-0.60	+1.14	+26.86	+19.36	+10.07	+6.39
Italy	+3.70	+7.03	+26.83	+28.00	+18.88	+14.92
Netherlands	+2.02	+8.00	+54.48	+33.31	+22.44	+18.35
Norway	-0.45	+1.79	+35.35	+18.91	+8.03	+4.42
Spain	+1.18	+5.09	+64.12	+33.57	+23.02	+18.91
Sweden	+0.11	+2.28	+52.75	+26.05	+15.02	+11.18
Switzerland	+3.15	+7.08	+49.86	+39.92	+34.90	+30.39
UK	-3.74	-1.35	+20.05	+9.64	+9.64	+5.97
EUROPE	-0.74	+2.19	+34.78	+21.13	+15.47	+11.61
Australia	+2.60	+5.94	+24.50	+14.65	+12.19	+8.44
Hong Kong	+8.83	+5.56	+25.73	+5.88	+9.44	+5.78
Indonesia	+1.94	+9.27	n.a.	+11.39	+12.02	+8.27
Japan	+0.08	+2.97	-8.01	+4.79	+9.76	+6.08
Malaysia	+0.82	-0.56	-5.85	-13.29	-9.91	-12.92
New Zealand	+3.28	+6.84	+15.94	+4.63	+4.99	+1.48
Philippines	+1.72	+7.53	n.a.	-15.92	-13.27	-16.17
Singapore	-1.09	-2.30	-8.42	-7.29	-6.01	-9.15
Thailand	-10.39	-21.89	-69.38	-47.60	-46.60	-48.39
Canada	-0.77	+2.04	+32.82	+11.99	+14.17	+10.35
USA	+0.67	+6.20	+35.02	+20.58	+24.75	+20.58
Brazil	+1.48	+12.79	+80.02	+58.23	+57.81	+52.54
Mexico	+4.34	+11.20	+35.95	+31.15	+34.23	+29.74
South Africa	-1.18	+1.30	+2.22	+7.84	+15.70	+11.84
WORLD INDEX	+0.35	+4.35	+23.83	+16.68	+18.21	+14.26

† Based on June 20th 1997.

Zurich climbs to another record

EUROPE

Strong performances by Nestlé and Roche enabled ZURICH to rebound from a weak opening and climb to a fourth consecutive all-time high. The SMI index picked up 26.0 to 5,587.8.

Roche certificates, a poor second best to the sharply higher Novartis last week, broke through resistance at SFr13,350 to add SFr255 at SFr13,500. The shares were also supported by news that the company was selling its Humacao plant in Puerto Rico and nine prescription pharmaceutical products to ICN Pharmaceuticals of the US in a deal valued at a net $145m. The news indicated, analysts said, that Roche was committed to a sharper focus on its businesses.

Novartis, up almost SFr200 last week after a well received research presentation on Tuesday, gave up SFr14 to SFr2,276 on profit-taking.

Nestle's sharp SFr43 rise to SFr1,890 was attributed to technical reasons as the shares broke through resistance at around SFr1,859.

Zurich Insurance, which climbed SFr10 to SFr565, took the spotlight in the financial sector.

PARIS traded narrowly to finish marginally higher in dull volume. The CAC 40 index ended up 5.10 at 2,762.20.

The day's trading range was narrow at 33 points while volume, sub-average for most of last week, stayed dull at 18.5m shares. "We've been more or less on hold all day," said one trader.

Alcatel Alsthom and Lagadère stood out. A weak market lately, Lagadère was the day's top performer, adding FFr7.20 or 4.4 per cent to FFr170.5. Alcatel gained FFr12 to FFr685 as investors warmed to last week's earnings upgrades by brokers.

LVMH had another volatile session. Last Thursday the shares fell 3 per cent on stake-building in Grand Metropolitan of the UK. They rallied almost 5 per cent on Friday but fell back FFr28.00 or 1.8 per cent to FFr1,503 yesterday.

FRANKFURT pulled back as profit-taking, Wall Street and a weaker dollar pulled the market down. The Ibis-indicated Dax index finished 39.75 weaker at 3,748.79.

Among the day's corporate developments, ProSieben Media, the television group, said the 17.5m preference shares in its July 7 bourse listing would be offered to investors in a range of DM66-DM72 a share, sharply below analysts, expectations of DM68-DM78. Traders forecast strong demand for the issue, noting that the shares were being quoted around DM100 in the unofficial grey market.

Elsewhere, Siemens broke through technical resistance to close DM2.20 up at a record high of DM103.80.

AMSTERDAM eased back from recent record levels, ending off 1.34 at 860.86 after a mixed session for the AEX index.

Acquisition news sent Elsevier lower after the bears got the better of a two-way tussle which pushed volume up to 5m shares. The Anglo-Dutch publisher is paying $447m, its third deal this year, for a US trade magazine business. The shares came off 50 cents to Fl 32.20.

Nedlloyd, well bought in recent session amid talk of freight rate rises and a broker upgrade, came off Fl 1.40 to Fl 54.10. Aegon rose Fl 1.70 to Fl 139.80 and Ahold added Fl 2.00 at Fl 164.50.

Heineken shed Fl 4.20 to Fl 357.30 after a sell recommendation from London brokers, Williams de Broe.

OSLO hit a new peak on the back of a good day for index heavyweight Nokia which surged to FMk380 at one stage before closing FMk8.60 higher at FMk373.60. The company was said to have come in for an upgrade from a US broker. The Hex index rose 31.49 to 3,157.88.

MILAN continued to ride a wave of optimism over the outlook for Emu and June inflation figures, which pulled in domestic and foreign investors. The Comit index rose 5.09 to an 11-year high of 827.54 while the real-time Mibtel index was at an all-time peak of 13,317, up 132 on the day after a day's best of 13,333.

Analysts noted that the indices would have been higher still but for a batch of stocks trading ex-dividend which pulled the figures down by about 0.7 per cent.

STOCKHOLM moved up to a new high, helped by renewed buying of drug leaders Astra and Pharmcia & Upjohn. The former added SKr2.50 at SKr139.5 and P & U gained SKr5.00 to SKr266.5. The general index ended 18.03 higher at 2,932.80.

Written and edited by Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Jun 23 — THE EUROPEAN SERIES

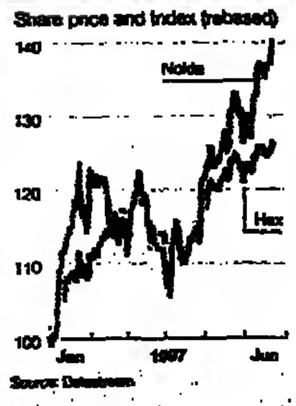
Hourly changes	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
FTSE Eurotrack 100	2460.14	2463.27	2463.29	2464.21	2468.86	2467.01	2468.67	2468.96
FTSE Eurotrack 200	2445.36	2448.68	2447.37	2448.80	2449.65	2450.28	2451.51	2453.47

	Jun 20	Jun 19	Jun 18	Jun 17	Jun 16
FTSE Eurotrack 100	2463.84	2455.80	2427.86	2446.48	2451.85
FTSE Eurotrack 200	2461.40	2455.01	2437.50	2454.20	2471.83

Base value 1000 (26/10/90). Highday: 100 - 2468.48; 200 - 2454.38 Lowday: 100 - 2459.76 200 - 2443.57. † Partial.

Nokia

Share price and index (rebased)



Source: Datastream

Istanbul soars 8% to peak

Istanbul surged 8 per cent in hectic activity on rising hopes for a new, Islamist-free coalition to be led by the conservative leader, Mr Mesut Yilmaz.

The IMKB National-100 index closed at an all-time high, up 132 at 1,774, easily surpassing the previous peak of 1,700 established on January 27. Turnover also soared, to TL45,480bn from Friday's TL27,120bn.

Mr Yilmaz, the prime minister-designate, who is leader of the main opposition Motherland party, said yesterday that he saw no chance of failure in his efforts to form a secularist coalition to keep the Islamists out of power.

One analysts said the market would be a direct beneficiary of a new government winning a vote of confidence. "There will be profit-taking but as long as the political developments are positive, the short-term target will be the 2,000-point level," he said.

Metal industry stocks were yesterday's best performers, with a 13.6 per cent climb, followed by a 10.9 per cent surge in the utility sector.

Bangkok extends rally to 8.5% over two days

ASIA PACIFIC

Tentative foreign buying helped lift BANGKOK strongly for the second session running. At the close, the SET index was up 24.28 at 504.53 for a two-day advance of nearly 8.5 per cent.

Turnover remained modest at Bt5.6bn but sentiment was said to have shown clear signs of a recovery. "It was all a bit technical after the recent shakeout, but there was some genuine buying," said one broker.

Banks continued to lead the rally. Thai Farmers rose by the daily limit, adding Bt7.50 to Bt82.50 in Bt483m turnover. Bangkok Bank gained Bt10.00 to Bt119 and Krung Thai Bank Bt2.50 to Bt28.25.

TOKYO made modest gains after hovering within a narrow range. Export-driven issues advanced on the dollar's strength against the yen in the wake of the G7 summit, but the majority of stocks declined, *writes Gwen Robinson.*

The Nikkei 225 average added 50.68 to 20,436.14 after moving between 20,386.04 and 20,461.55. The market was encouraged from the outset by New York's gains on Friday.

Investors were relieved that the Denver summit did not place undue stress on yen-dollar exchange rates and, instead, urged Japan to achieve growth through domestic demand rather than relying on exports. However, share prices drifted as many investors remained cautious ahead of Wednesday's publication of the Bank of Japan's quarterly *tankan* survey of business sentiment.

Volume fell from Friday's 414m shares to an estimated 296m. Declines led advances 633 to 424 with 197 unchanged.

The Topix index of all first-section stocks rose 0.68 to 1,530.92 and the capital-weighted Nikkei 300 crept up 0.32 to 296.17. In London, the ISE/Nikkei-50 index rose 1.61 to 1,602.73.

Carmakers gained ground after recent setbacks. Honda advanced for the first time in five trading days, gaining Y60 to Y3,270. Suzuki Motor rose Y40 to Y1,460 but Toyota stayed flat at Y3,350.

Fujitsu, the day's most active issue, rose Y20 to Y1,590 after earlier reaching a intraday high for the year of Y1,600. Leading consumer electricals advanced although some high-technology issues fell prey to profit-taking. Sony gained Y40 to Y9,870 and NEC Y20 to Y1,670.

Foreign investors pursued domestic demand-driven issues. Jusco, a leading supermarket operator, added Y60 to Y3,990 and Marui gained Y20 to Y2,290.

Property developers advanced. Mitsubishi Estate added Y20 to Y1,610, Mitsui Fudosan Y10 to Y1,540 and Sumitomo Realty and Development Y17 to Y1,010.

Pharmaceuticals, however, retreated after substantial gains in recent sessions. Sankyo Pharmaceutical, which last week announced poor earnings projections for the current business year to March, fell Y50 to Y3,650. Takeda Chemical dropped Y60 to Y3,170 and Yamanouchi Pharmaceutical Y50 to Y3,070.

In Osaka, the OSE average fell 13.15 to 21,186.30 and volume rose to 18.4m shares.

MANILA fell sharply after profit-taking in selected property stocks sparked across-the-board selling. The composite index came off 73.08 or 2.5 per cent to 2,808.65. Turnover was heavy at 2.5bn pesos.

Megaworld Properties stood out against the downtrend, adding 55 centavos to 4.10 pesos.

TAIPEI rose to a seven-year high in turnover of T$159bn with the weighted index advancing 91.29 to 8,925.12 after a session best of 8,940.88.

The electronics sector gained 5.4 per cent after Taiwan Semiconductor raised its 1997 sales and profit targets by more than 20 per cent. Shares in the chip giant jumped by the 7 per cent daily limit to T$115.5.

United Microelectronics, Winbond and Mosel were all limit up too at TT113, T$54.5 and T$87.5 respectively.

HONG KONG took a roller coaster ride, initially adding to Friday's 4.5 per cent surge to establish a new all-time high before profit-taking pulled shares back amid nervousness over China-related red chips.

The Hang Seng index touched a peak of 15,322 in another show of bullish enthusiasm ahead of next week's handover to China. But later the index pulled back to close 133.13 lower at 15,021.23. Turnover, which remained heavy at HK$26.3bn, was attributed to inflows from China.

Analysts noted that the market was also dampened by China's announcement last Friday that the transfer of domestic assets into China-controlled companies overseas would require government approval if the purpose was to place assets in a listed company.

Hang Seng Bank, sharply higher last week on speculation that Chinese interests might take a stake, tumbled FK$5.50 to HK$104 on profit-taking.

KUALA LUMPUR was broadly lower, with the composite index down 8.56 to 1,088.98, but Taiping Consolidated and Malpac Holdings both bucked the trend, jumping to 12-month highs in heavy trade.

Taiping jumped 88 cents to M$3.06 on speculation that it planned to sell its interest in Sentul Raya, a mixed property development in Kuala Lumpur.

Malpac, the stockbroking and financial services group, gained 80 cents to M$8.30 on news that United Merchant Group was buying a stake. United Merchant dropped 22 cents to M$3.78.

South Africa pushes higher

Shares in Johannesburg moved ahead strongly on the back of an active day for industrials in the cash and futures markets. The all-share index ended 52.2 higher at 7,286.3.

Industrials rose 57.3 to 8,568.8 after a lively session for the new September futures contract. At one stage the September industrial contract moved out to a premium of 100 points to fair value. "It was a field day for the futures traders. There was plenty to go for," said one broker.

Golds remained subdued in line with the bullion price which continued to hover around four-year lows. The golds index ended off 12.3 at 1,015.1.

FT/S&P ACTUARIES WORLD INDICES

The FT/S&P Actuaries World Indices are owned by FTSE International Limited, Goldman, Sachs & Co. and Standard & Poor's. The indices are compiled by FTSE International and Standard & Poor's in conjunction with the Faculty of Actuaries and the Institute of Actuaries. NatWest Securities Ltd. was a co-founder of the indices.

NATIONAL AND REGIONAL MARKETS Figures in parentheses show number of lines of stock	FRIDAY JUNE 20 1997 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	THURSDAY JUNE 19 1997 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (76)	240.62	1.3	215.69	174.40	216.68	213.03	0.8	3.61	237.58	213.91	171.02	213.03	211.27	240.62	188.44	202.94
Austria (24)	193.52	-0.3	173.46	140.26	174.26	174.15	0.1	1.91	194.04	174.71	139.68	173.99	173.90	200.52	174.70	188.86
Belgium (26)	251.52	0.0	225.45	182.30	226.49	221.75	0.4	3.22	251.62	226.55	181.13	225.61	220.84	255.67	206.70	207.68
Brazil (30)	289.33	-0.8	259.35	209.70	260.54	574.01	-0.6	1.27	291.82	262.75	210.07	261.66	577.66	292.72	170.26	172.79
Canada (112)	209.49	-0.2	187.79	151.84	188.65	211.03	0.0	1.65	209.82	188.92	151.04	188.14	211.02	212.99	154.12	160.47
Denmark (32)	390.59	-0.1	350.11	283.09	351.72	350.40	0.3	1.44	390.92	351.86	281.41	350.52	349.21	391.53	299.79	299.98
Finland (26)	274.61	-0.5	246.15	199.03	247.28	299.05	0.0	1.84	275.88	248.40	198.59	247.37	299.05	279.84	186.67	193.22
France (90)	224.33	0.0	201.08	162.59	202.00	205.69	0.5	2.76	224.23	201.89	161.41	201.05	204.65	232.34	186.94	192.86
Germany (59)	218.33	0.4	195.70	158.24	196.60	196.60	0.8	1.44	217.46	195.80	156.54	194.99	194.99	218.33	168.70	169.59
Hong Kong (66)	536.36	4.4	480.78	388.74	482.99	533.16	4.4	2.83	513.76	462.57	369.83	460.66	510.63	536.36	407.55	426.71
Indonesia (27)	247.07	0.4	221.47	179.07	222.49	388.39	0.4	1.82	246.09	221.58	177.15	220.66	386.86	-	-	-
Ireland (17)	349.86	0.0	313.60	253.57	315.05	326.74	0.2	2.90	349.97	315.10	251.62	313.60	326.15	354.64	270.08	289.95
Italy (59)	95.95	1.0	86.00	69.54	86.40	121.36	1.3	2.08	95.01	85.54	68.39	85.19	119.82	98.32	73.28	83.46
Japan (485)	136.93	-0.7	122.74	99.24	123.30	99.24	-0.0	0.79	137.87	124.13	99.24	123.82	99.24	158.25	107.57	157.68
Malaysia (107)	525.30	-0.3	470.87	380.73	473.03	508.76	-0.4	1.34	527.08	474.57	379.42	472.60	510.68	680.85	510.10	582.40
Mexico (27)	1582.64	1.2	1418.63	1147.07	1425.16	13769.50	1.9	1.35	1563.62	1407.83	1125.57	1402.01	13517.62	1582.64	1110.35	1227.34
Netherland (19)	397.83	0.3	356.60	288.34	358.24	353.78	0.7	2.20	396.75	357.22	285.80	355.74	351.41	397.83	279.88	293.78
New Zealand (14)	93.13	0.3	83.48	67.50	83.86	72.16	0.6	3.98	92.88	83.64	66.87	83.29	71.77	95.60	79.04	79.50
Norway (41)	308.60	-0.1	276.62	223.67	277.89	304.59	0.2	2.02	309.05	278.26	222.47	277.11	304.03	321.23	246.04	254.14
Philippines (22)	170.71	-1.0	153.02	123.73	153.72	224.42	-1.0	0.83	172.36	155.19	124.06	154.55	226.64	-	-	-
Singapore (42)	381.44	-0.7	341.91	276.46	343.48	250.89	-0.6	1.21	384.22	345.94	276.58	344.51	252.38	448.01	360.08	422.10
South Africa (44)	356.14	0.2	319.23	258.12	320.70	351.06	0.1	2.46	355.47	320.06	255.88	318.73	350.56	370.12	301.49	380.35
Spain (35)	261.37	0.9	234.28	189.44	235.36	289.30	1.3	2.28	259.09	233.28	186.51	232.31	285.54	262.42	171.91	181.28
Sweden (49)	469.06	-0.4	420.45	339.97	422.38	537.54	0.0	1.82	470.89	423.98	336.97	422.22	537.54	470.89	334.35	358.87
Switzerland (35)	311.07	0.7	278.83	225.45	280.11	277.88	0.9	1.20	309.06	278.27	222.48	277.12	275.43	311.07	231.89	238.36
Thailand (43)	49.44	4.0	44.32	35.83	44.52	49.95	4.5	6.25	47.55	42.81	34.23	42.83	47.78	172.92	47.55	165.99
United Kingdom (212)	300.08	-0.7	268.98	217.49	270.22	286.98	-1.1	3.78	302.19	272.09	217.53	270.96	272.09	308.21	229.63	232.96
USA (647)	363.96	0.0	326.24	263.79	327.74	363.96	0.0	1.69	363.82	327.57	261.89	326.22	363.82	363.96	254.79	269.65
Americas (816)	332.73	0.0	298.25	241.16	299.62	280.32	0.0	1.89	332.64	299.50	239.45	298.26	280.20	332.73	233.09	246.25
Europe (726)	267.48	-0.1	239.76	193.87	240.87	247.87	0.0	2.60	267.61	240.95	192.64	239.95	247.76	269.01	204.71	208.67
Nordic (150)	400.84	-0.3	359.30	290.52	360.95	398.29	0.1	1.85	402.16	362.09	289.49	360.59	398.01	402.16	291.45	305.98
Pacific Basin (882)	155.62	0.0	139.50	112.79	140.14	113.90	0.5	1.25	155.67	140.16	112.06	139.58	113.37	170.85	127.18	170.23
Euro-Pacific (1608)	202.30	0.0	181.34	146.63	182.17	164.45	0.2	1.99	202.38	182.22	145.68	181.47	164.07	203.07	173.56	186.66
North America (759)	354.37	0.0	317.65	256.84	319.11	353.77	0.0	1.70	354.27	318.97	255.02	317.65	353.64	354.37	246.65	262.80
Europe Ex. UK (514)	243.33	0.3	218.11	176.36	218.12	230.07	0.7	1.96	242.56	218.40	174.61	217.49	228.47	243.33	185.85	191.76
Pacific Ex. Japan (397)	317.03	2.1	284.17	229.77	285.48	278.50	2.0	2.88	310.64	279.69	223.61	278.53	273.15	320.65	269.97	287.88
World Ex. US (1821)	205.91	0.0	184.57	149.24	185.42	171.16	0.2	1.96	205.99	185.47	148.28	184.70	170.78	206.71	176.94	187.72
World Ex. UK (2256)	252.00	0.1	225.88	182.64	226.92	222.02	0.3	1.64	251.82	226.73	181.27	225.79	221.42	252.00	199.58	210.88
World Ex. Japan (1983)	317.48	0.1	284.58	230.10	285.89	307.07	0.2	2.05	317.05	285.47	228.23	284.29	306.56	317.48	233.10	243.62
The World Index (2468)	256.19	-0.0	229.64	185.68	230.70	226.54	0.1	1.84	256.20	230.68	184.43	229.72	226.23	256.20	202.32	212.99

 Latest prices were unavailable for this edition.

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India
50 YEARS
of independence

Reforms stir hopes for era of prosperity

Martin Wolf says more bold changes are needed if India is to better the mixed record of the first half-century

India, Winston Churchill once remarked, "is a geographical expression. It is no more a united nation than the Equator". The brutal division of the sub-continent in 1947 seemed to show he was right. But the still-vast India that then emerged has proved him wrong. It survived not just as a country, but as a democracy. The overriding goal of its next half century needs to be the still more ambitious one of widely-shared prosperity.

Before 1947, today's India had never been a unified state. Language, religion, caste and wealth have always divided its vast population. For such a country to have sustained elections, a free press and an independent judiciary would have been incredible if it had not happened.

There have been rewards. The country has escaped the famines that blotch the record of China's Communist rule. The population has soared from 340m at independence to 970m today, but it has been fed. Nor has India's turbulent democracy halted economic progress: real incomes per head have grown at a compound rate of 2 per cent a year over the past half century – faster than in its people's previous history.

Yet India could have done far better. Until the 1980s, the economy grew at between 3 and 4 per cent a year – a rate that became known, disparagingly, as the Hindu rate of economic growth. Then, in the 1980s, the pace quickened, as growth rose towards 6 per cent a year. Unfortunately, the improvement was unsustainable and led to a balance of payments crisis in June 1991.

Only today, after the beginnings of radical reform under the then prime minister, Mr Narasimha Rao, and his finance minister, Mr Manmohan Singh, can India hope to grow at 6 per cent, sustainably. But the 8 to 10 per cent achieved elsewhere still seems well beyond its reach.

At independence, India was a leader among developing countries. Under the authoritative leadership of its first prime minister, Mr Jawaharlal Nehru, the country was accorded the influence it saw as its due. Then, in the 1960s, the West supported India as the alternative to Chinese communism.

Yet neither influence nor assistance creates prosperity. Under the sway of socialist ideals, anxiety about foreign economic encroachment and upper-caste contempt for merchants, India embarked on planned, inward-looking development. Imitating the Soviets, whom they took as mentors, India saw publicly-owned heavy industry as the route to modernisation. But India also had private enterprise. The result was the byzantine system of controls that became known as the "permit-raj".

Over time, the strategic error became evident. India had assumed there were no opportunities for rapid export expansion, but soon found that tiny Hong Kong earned more from its exports than it did itself. India had assumed competition was wasteful, but learned there could be no improvement in productivity without it. As India fell behind more dynamic rivals, including China, it lost its reputation.

It lost not just influence abroad, but also innocence at home. Controls bred corruption and intervention bred interest groups. Indian society has long been divided into narrow occupational groups: it still has some 900 sub-castes, for example. But it was India's interventionist policies that turned this broad tendency into an economic cancer. The result has been condemned by two close observers, Mr Vijay Joshi and Mr Ian Little of Oxford University, as "exclusive bourgeois socialism".

Advocates justified the policies India pursued as ways to combat poverty. The reality has been the opposite: only the 10 per cent of the labour force with jobs in the public sector or large-scale private companies enjoy security and the lion's share of investment; the benefits of subsidies go predominantly to better off segments of the population; and the adult literacy rate is still only 50 per cent, while that for women is a third.

Behind the socialist rhetoric, India created an uncompetitive industrial island in an ocean of poverty. It sought to combine progress with minimal change, promoting a narrow industrialisation that left the bulk of the population in the villages where Indian stability has always been based.

By the time the economic crisis struck in mid-1991, the old system was bankrupt financially, intellectually and politically. Socialist economies had collapsed everywhere. The Congress party that led the fight for independence and provided almost all subsequent governments had been captured by the Gandhi dynasty. Politicians were tainted by corruption. The bureaucracy had lost its reputation for competence. The government had abandoned its wonted fiscal prudence. Businessmen displayed entrepreneurship in the hunt for licences.

Time had come for a change. Indeed, behind the edifice of Nehruvian centralisation, change had long been under way. An internationally competitive entrepreneurship had emerged: India's thriving software industry is an example; its exports of gems and jewellery are another.

India's states had also developed distinct policies and politics. Kerala achieved levels of education and health up to the best developing country standards. Punjab's income per head became more than triple that of poverty-stricken Bihar.

At independence, India inherited an empire, committed itself to socialism and embraced democracy. 50 years later, Delhi's empire is enfeebled, socialism is dead and democracy, while vital, has been corrupted. Even the elaborate structure of caste and subcaste is losing hold. The more dynamic cherish freedom when once they laboured under the weight of an unchangeable destiny.

Change is painful, particularly in a society as complex and conservative as India's. It carries with it the risks of social conflict and demagogic populism. But it also creates opportunities. New businesses, politicians and political arrangements begin to emerge.

Of the changes now under way – the move to a market economy and political decentralisation – the first is the more unambiguously beneficial. A more competitive economy is the only possible basis for the faster growth India desperately needs. It should also limit corruption by reducing the need for it. But the market will generate social upheaval and pull millions from the village to the towns.

The greater concern must be over whether govern-

Continued on Page 15

In part one of this Survey

In part two

PERFORMANCE • by Martin Wolf

Perils of 'licence raj'

Extensive government intervention hampered economic progress and failed to reduce poverty

Economically, India's half century has been a failure.

If one's standard were India's past, or what has happened in the many poorly performing developing countries in the past 50 years, this judgment would be harsh and unfair. But these tests are too easy. Judged by its potential, the needs of its people and the performance of its eastern neighbours, India has failed.

According to a study by Mr Angus Maddison for the Organisation for Economic Co-operation and Developmant, India's real gross domestic product per head rose 125 per cent between 1950 and 1992 – a compound rate of growth of 2 per cent a year. Since real incomes per head rose just 12 per cent between 1820 and 1950, this may appear satisfactory – particularly since the population increased from 345m in 1947 to 880m in 1992 – and 956m in 1996.

Yet, by the standards of the best-performing developing countries, India's performance has been mediocre. Indonesia's real income per head rose 215 per cent between 1950 and 1992, China's 400 per cent, Thailand's 450 per cent, South Korea's 1,040 per cent and Taiwan's 1,160 per cent.

In 1947 living standards in China were much the same as in India. By the mid-1990s China's were roughly double.

In 1993, according to the World Development Indicators of the World Bank, 1,310m people lived on less than $1 a day – measured at purchasing power parity – of whom 470m were Indian. In sub-Saharan Africa the number of similarly poor people was 220m. Even in China it was only 350m.

This poverty does not appear to be the result of a particularly unequal distribution of incomes. Figures from the World Bank suggest the distribution may even be quite equal by the standards of developing countries. If there was to be a substantial reduction in India's pervasive poverty, the economy would have to grow faster.

Rapid labour-absorbing industrialisation has been the basis for economic advance in successful labour-abundant developing countries. But Indian industry has not grown fast enough. The share of manufacturing in GDP was 14 per cent in 1960 and still only 19 per cent in 1995. Similarly, the proportion of India's workforce employed in industry was only 11 per cent in the early 1990s, no higher than in 1960.

Particularly striking has been dismal job creation by larger enterprises. In 1995 employment in private manufacturing companies with 10 or more employees was a mere 4.7m. With public sector employment added, the total was still only 6.5m – about 2 per cent of the workforce.

The reason for India's industrial growth and employment expansion being so weak is perverse policies. As Mr Vijay Joshi and Mr Ian Little of Oxford University said in a study (*India's Economic Reforms 1991-2000*) published last year: "The strategy of Indian industrialisation did not change much from independence to 1990. It emphasised heavy industry, public ownership and import substitution. This went along with contempt for the price mechanism and a belief that competition was harmful."

The range and intensity of government interference in industry defies belief. The government:

- Told businesses what to produce, how, where and in what quantities;
- Prevented them from laying off labour or closing unprofitable factories;
- Placed obstacles against expansion by big private business, both domestic and foreign;
- Limited the entry of competitors;
- Provided subsidised credit to favoured users;
- Controlled prices, notably of steel, fertilisers and petroleum products;
- Controlled imports and inward investment;
- Created monopoly importers of raw materials;
- Nationalised banks and insurance companies and owned a substantial number of industrial enterprises;
- Monopolised provision of infrastructure.

Many proponents justified these policies as helping the poor. But, as Mr Joshi and Mr Little point out: "Almost all government interventions in industry have ... reduced the demand for labour. At the same time, almost all controls have channelled the benefits of growth ... to a minority of the population."

Consider some of the harmful effects of these industrial policies.

First, public enterprise has been inefficient. Between 1986 and 1991 state-owned enterprises made 39 per cent of gross investment, but generated only 14 per cent of GDP. In manufacturing, the public sector received nearly 30 per cent of domestic investment between 1985-86 and 1993-94, but generated 15 per cent of value added.

The return to public investment in manufacturing was 3 per cent to 5 per cent between 1976-77 (April to March) and 1986-87, compared with 17 per cent to 23 per cent in the private sector. The return on net capital employed in the central public sector enterprises has remained stubbornly below 5 per cent.

Second, the public sector has failed to supply an adequate infrastructure. Much electric power has been stolen or given to farmers at well below cost, sometimes even free. State electricity boards have become bankrupt. In 1992-93 they had a negative return on assets of 13.5 per cent. This has made it impossible to finance the needed generating capacity. The result has been power cuts and growing reliance by companies on high-cost captive generating capacity.

Third, protection against imports prevented India from exploiting its comparative advantage in labour-intensive manufacturing and eliminated international competition from the domestic economy. In 1970, when inward-looking policies reigned supreme, the ratio of trade in goods and services to GDP was a mere 8 per cent, the lowest in the world, but for China.

Fourth, the government has offered special tax exemptions and reserved production of hundreds of items to small-scale enterprises. In recent years about 800 to 900 products have been reserved in this way, more than half in light engineering. This policy has reduced quality, hindered exports and thwarted the growth of efficient companies.

Fifth, protection has been given to the small proportion of the workforce employed in organised industry – and the public sector. In most countries it is illegal to trade when bankrupt. In India it has been illegal to cease doing so. Similarly, it has been made almost impossible for big companies to dismiss workers.

The panoply of controls, regulations and restrictions became known as "the permit raj". The wonder is not that it slowed industrialisation, but that it permitted industrialisation at all.

The initial motivations for the regime were Fabian socialism, suspicion of merchants and fear of foreigners. Over time, however, policies were increasingly captured by corrupt politicians, self-seeking bureaucrats, industrialists, trade unionists and big farmers.

Meanwhile, the interests of hundreds of millions of poor, illiterate Indians were ignored. In 1994-95 subsidies to power were Rs98.9bn and to industry Rs128.4bn, while spending on elementary education was Rs110.1bn. It is no surprise that adult literacy was only 51 per cent in 1993. For women it was just over one-third. Yet China's adult literacy rate is about 80 per cent.

According to Professor Jean Drèze, visiting professor at the Delhi School of Economics, and Professor Amartya Sen of Harvard University, India's record on literacy and infant mortality is no better than that of sub-Saharan Africa. In 1960 literacy in South Korea and Thailand was much higher than in India today.

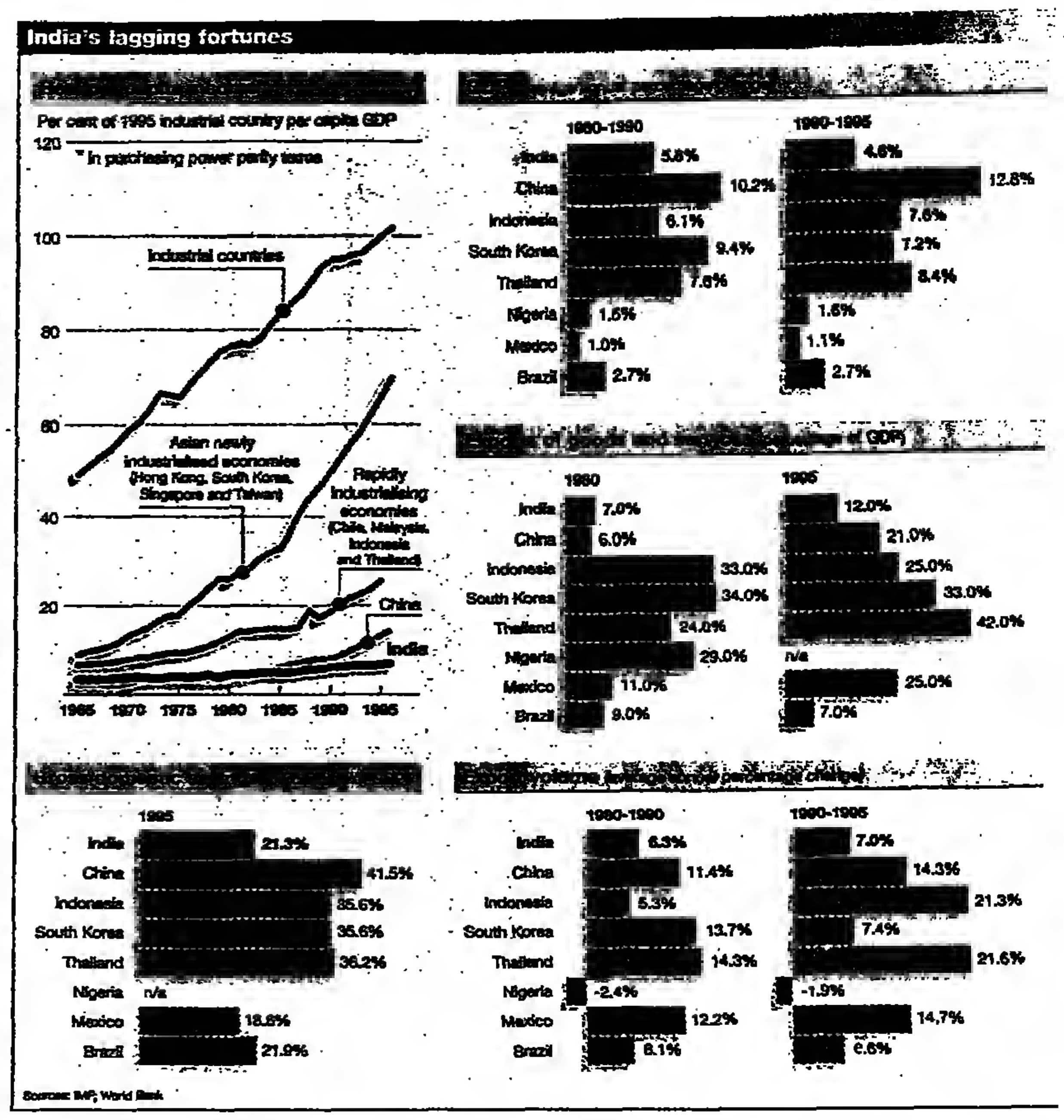
As the years passed, the extent of India's failure to keep up with more successful developing countries became clear and attitudes began to change. Tentative liberalisation started in 1985, under Prime Minister Rajiv Gandhi. This produced some results: GDP grew at 5.8 per cent a year in the 1980s, while manufacturing expanded at 7.4 per cent.

Unfortunately, the growth was unsustainable. The fiscal deficit crept up from 4.5 per cent of GDP in the late 1970s to 8.5 per cent by 1985-86. In the second half of the 1980s the average current account deficit was 2.4 per cent of gross domestic product, nearly half of exports.

The ratio of external debt to gross national product increased from 17.7 per cent in 1984-85 to 24.5 per cent in 1989-90, the ratio of debts-to-exports jumped from 210 per cent to 265 per cent and the debt service ratio rose from 18 per cent to 27 per cent.

By June 1991 foreign exchange reserves were down to two weeks of imports and India had lost creditworthiness in international financial markets. Inflation was up to the high – by Indian standards – annual rate of 13 per cent.

This crisis was also an opportunity. Economic stabilisation was unavoidable. But the government could also exploit this evidence of failure to justify an assault on the policies that had hindered and distorted the Indian economy for so long. It could liberalise the economy, shift the focus of its attention and change the relationship between the centre and the states. All this it has started to do. The attempt to start afresh makes up the story of the 1990s.



Sources: IMF; World Bank

LIBERALISATION • by Martin Wolf

Success, with more to come

Much has been done, but a vast agenda of changes remains before fast growth can be achieved

The balance of payments crisis of mid-1991 could have introduced Latin American instability to the Indian economy. Instead, it marked the start of reform, to the credit of the minority Congress government – and, above all, of Mr Manmohan Singh, its ontstanding finance minister, and Mr PV Narasimha Rao, the prime minister, who backed him.

"Our strategy," Mr Singh said in a recent interview, "was to bring about macro-economic stability in the shortest possible period and then to launch a wide-ranging programme of structural reforms to increase the dynamism of our industrial economy, exports and the financial system."

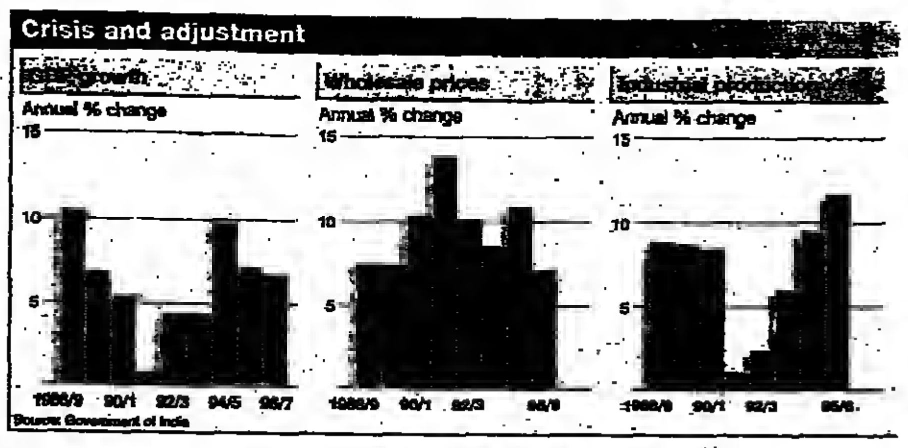
They succeeded. India's rate of growth has risen to about 6 per cent a year, well above the 3½ per cent of the 1960s and 1970s. The growth is also more sustainable than the debt-driven 5.8 per cent of the 1980s.

The programme was separated into two broad components. The first was stabilisation, at the heart of which were measures to improve India's fiscal and balance of payments positions. Between 1985-86 (April to March) and 1990-91, the gross fiscal deficit of the central government was more than 8 per cent of gross domestic product. By 1992-93 it had been brought down to 5.7 per cent.

The combination of fiscal tightening with a 22 per cent devaluation of the rupee *vis à vis* the US dollar in July 1991 and the introduction of a market-determined exchange rate in 1993 sharply improved the current account position. A deficit of 3.2 per cent of GDP in 1990-91 fell to 0.5 per cent the following year, while foreign exchange reserves rose from US $2.2bn in 1990-91 to $21.7bn by the end of 1996-97.

The second and more fundamental part was structural reform. The central elements, most introdnced in the first two years, were:

- Delicensing of investment and production in most industries.
- Decontrol of business decisions on location and technology transfer, although not of decisions to lay off workers or close operations – the so-called "exit policy".
- Lifting of many import controls, although not those on imports of almost all consumer goods, and the reduction of tariffs to an average of 27 per cent and a peak of 52 per cent before this year's budget.
- Encouragement of foreign direct investment, with majority equity, except in a few consumer goods industries.
- Opening up of more sectors to private investors, including power, steel, oil refining, air transport, telecommunications, ports, mining and pharmaceuticals.
- Liberalisation of capital markets, with entry of private mutual funds, foreign institutional investors and improved regulation.
- Reform of the tax system, by lowering rates and simplifying the structure.



The net effect of this programme was unquestionably positive. After growing by only 0.8 per cent in 1991-92, GDP grew by 5.1 per cent in 1992-93. This was an exceptionally swift turnaround, compared with almost any other economy in a similar predicament, as Mr Shankar Acharya, the chief economic adviser to the government, has noted. In the five years 1991-92 to 1996-97 growth ran at a compound rate of 6.3 per cent a year.

Industrial value added recovered swiftly from its decline of 1.3 per cent in 1991-92. It then grew at a compound rate of 6.8 per cent between 1991-92 and 1996-97.

Gross domestic savings grew from 22.8 per cent of GDP in 1991-92 to 25.6 per cent in 1995-96. Gross domestic capital formation went from 23.4 per cent of GDP in 1991-92 to 27.4 per cent in 1995-96.

The dollar value of Indian merchandise exports jumped from $17.9bn in 1991-92 to $33.5bn last year, although export volume still grew at only 7 per cent a year between 1990 and 1995. Merchandise exports jumped from 78 per cent of imports in 1989-90 to 95 per cent in 1993-94, before declining to 86 per cent last year. This helped imports rise from the compressed level of $19.4bn in 1991-92 – down from $24.1bn the previous year – to $39bn last year.

The ratio of trade in goods and services jumped from a mere 8 per cent of GDP in 1970 to 27 per cent in 1995. Foreign direct investment rose from virtually nothing in 1990-91 to $1.9bn in 1995-96. Net private capital inflows of $8bn in 1996, according to the World Bank, were still small compared with China's $52bn. But the country was the eighth biggest recipient in the developing world.

Yet complacency would be a mistake, as last year's slowdown showed. Export value (in dollars) increased only 4 per cent between 1995-96 and 1996-97, partly because of the dollar's appreciation. Similarly, real industrial value added grew about 6 per cent last year, well below the 11.6 per cent achieved in 1995-96.

More importantly, substantial further reform is needed if growth is to be pushed up from 6 per cent to between 9 per cent and 10 per cent a year. This year's budget from Mr P. Chidambaram, the finance minister, made a splash, notably with its reduction in the top rate of income tax to 30 per cent and abolition of the taxation of dividends in the hands of shareholders. Yet it was more an indication of the minister's reforming intentions than a significant reform in its own right.

Nine aspects of the economy still need attention.

First, the fiscal position is far from solid. Mr Vijay Joshi and Mr Ian Little, of Oxford University, concluded in a study (India's Economic Reforms, 1991-96) published last year that the primary deficit – the deficit, apart from net interest payments – of the non-financial public sector should be less than 1 per cent of GDP. The primary deficit of central government has fallen from 4.3 per cent in 1990-91 to close to zero last year. But the International Monetary Fund estimates that the primary deficit of the public sector at more than 3 per cent in 1995-96.

Second, according to a report published by the finance ministry in May, subsidies that cannot be readily justified by wider social and economic benefits amounted to 10.7 per cent of GDP in 1994-95. The rate of cost recovery on the subsidised goods and services was a mere 10.3 per cent. These subsidies must be drastically cut.

Third, radical restructuring and privatisation of public sector enterprises is needed. The disinvestment commission set up by Mr Chidambaram last year has selected 15 of India's 250 public enterprises for sale under three different formulae. The approach is too cautious, but action of the commission's recommendations would be a start.

Fourth, the division of revenue between the centre and states needs to be reformed. The finance minister has proposed that the states would receive 29 per cent of all centrally collected revenues, 2 percentage points of which would be tied to improved state fiscal performance. This requires a constitutional amendment.

Fifth, the states must improve the quality of their spending. Scandalously, state subsidies to irrigation and power at Rs 199.8bn in 1993-94 ($6.6bn), were almost double their total spending on elementary education and public health.

Sixth, there must be reform of the finance and provision of infrastructure. A report commissioned by the government from Mr Rakesh Mohan, former economic advisor to the industry ministry, has made radical suggestions for financial reform, transparent regulation and, above all, an end to the practice of making public organisations provide useless jobs and costly subsidies to favoured constituents.

Seventh, trade policy needs further change. The finance minister has committed the government to reducing tariffs to the level prevalent in the Association of South-east Asian Nations (Asean) by the turn of the century. This year he has reduced the peak tariff to 40 per cent. But the most important next step is lifting controls on imports of consumer goods.

Eighth, India should start moving towards convertibility on capital account. A report for the Reserve Bank of India recently recommended convertibility by the end of the century. But there must first be further fiscal consolidation, strengthening of the financial sector and a credible commitment to low inflation.

Finally, labour market regulation, which favours a tiny minority of Indians, must be reformed.The idea of jobs for life must end. The government must accept competition in sensitive sectors, such as civil aviation. Reservation of products to the small-scale sector needs to be ended and the urban land ceiling act – a huge obstacle to efficient urban development – repealed.

This is a vast agenda. What is more, it ignores the need for government, particularly the state governments, to focus more attention on social spending. If these reforms were carried out, however, India should be able to grow as quickly as any other big economy.

Policy-makers will feel the task is too difficult and painful. But they should appreciate the prize to be won.

At growth of 6 per cent a year, India's income per head will double every 16 years. At 10 per cent, it would double every eight. The lives of one-sixth of the world's population would then be transformed.

VIEWPOINT

The end of isolation

The 50th anniversary of India's independence should be an occasion for celebration. It is, but the reason is not India's economic achievements. It is the fact that the country's economic reforms are reconnecting it to the rest of the human race after almost half a century of foolish policies, which cost her growth and hence a significant opportunity to ameliorate poverty. Applause is dua but much remains to be done.

India's policies were heavily influenced by Fabian socialism, undue pessimism about exports and a passionate conviction that integration into the world economy would lead to a disintegration of its own economy.

India had a Kafkaesque system of industrial licensing; a strategy of import-substituting industrialisation that undermined economic efficiency and export growth; an unwillingness, ultimately an inability, to attract foreign direct investment; numerous hugely inefficient public enterprises; and a deteriorating relative technological position, brought on by the absence of foreign direct investment and an inability to afford imports.

Successive Indian governments persisted in these policies, even as their cost became manifest, and in spite of mounting criticisms from economists. Reforms were tried in 1966, then just before Mrs Indira Gandhi's assassination, and again at the start of Rajiv Gandhi's term.

By contrast, prompted by India's imminent external bankruptcy, Prime Minister Narasimha Rao and Mr Manmohan Singh, his finance minister, started in 1991 to implement a programme of sustained reforms. Having lasted, even expanded, through the past six years, these have turned the economy around. They have found support among voters and most political parties. Both prime ministers of the United Front who succeeded Mr Rao have embraced them.

The question now is not whether the reforms will be reversed but how rapidly they will be extended.

The Rao government managed to reverse many of India's earlier policies, in full view and without stealth.

When one understands the massive tasks before the reformers after more than three decades of an intensely inward-looking policy framework, the proper analogy seems to be a clean-up after a typhoon. It may seem contrary to complain about what has not been done. It may also seem too technocratic. The reformers did have to negotiate political minefields even to achieve what they did.

Yet, e number of vital tasks remain. Privatisation has barely started, more labour market flexibility must be introduced, imports of consumer goods must be liberalised, and the long-awaited attack on India's appalling illiteracy must start in earnest.

The excellent recent budget of Mr P. Chidambaram, the finance minister, managed to maintain the enthusiasm of reformers by offering tax changes but it can do little beyond that. The challenging reforms lurk elsewhere.

● *The author is Arthur Lehman professor of economics at Columbia University, and was an adviser to finance minister Manmohan Singh on India's reforms.*

INDUSTRIAL POLICY • by Stefan Wagstyl

Inching toward privatisation

Reform of the public sector is dogged by reluctance to give up inefficient practices

The government of India is in the throes of deciding whether to stay in the business of making bread and biscuits. It is also considering whether to continue running a chain of hotels and an out-dated aluminium smelter.

If ministers should decide to sell control of any of these three state-owned companies, it would signal the biggest change in India's public sector enterprises since Jawaharlal Nehru ordered nationalisation of key industries in the early 1950s. Bnt few people in New Delhi expect the government to make so dramatic a change soon; the wheels of public sector policies turn very slowly.

Mr GV Ramakrishna, the civil servant who has recommended the disposals in a wholesale review of state-owned industry, says he has selected the three companies as particularly easy to sell. None is in what even a stout-hearted Nehruvian socialist would regard as a core activity for public enterprise. But, at the time of writing, no decision to go ahead appeared to be in sight. As Mr Ramakrishna, who chairs a newly-created Disinvestment Commission, says: "We are now looking at whether the political will is there."

The commission is the latest of many attempts to reform state-owned industry. Ministers recognised long before the start of the economic liberalisation of the 1990s thst publicly-owned companies were a burden on the bndget through subsidies for lossmaking enterprises and a drag on the whole economy through their inefficiency.

But neither politicians nor bureancrats have been willing to surrender the vast pools of patronage thet lie in the public sector. Nor have they been ready to contemplate the job cuts which might be be involved in raising efficiency to private sector standards.

The World Bank estimates that 25 to 33 per cent of the 2m employees at the 245 central government enterprises might be redundant. Their activities exclude some 5m working in railways, telecommunications and state-owned financial institutions, which are classed separately.

Nehru believed that state-owned industries would help India bolster its political independence with economic self-sufficiency. Under his guidance, and that of his successors, the public sector successfully expanded India's industrial production.

However, Nehru's bid to scale the "towering heights of socialism" came at the price of growing inefficiency. A government-sponsored report of the early 1990s estimated that production costs in state enterprises were 75 per cent higher than in comparable Indian private companies.

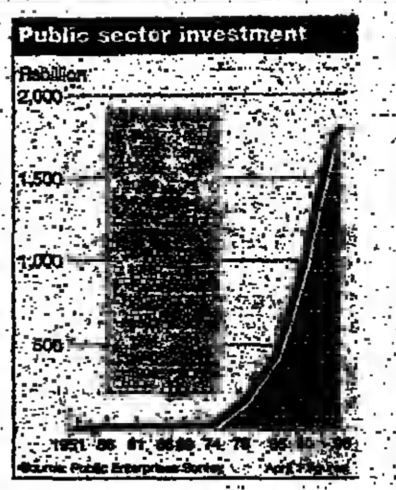
With the policy and process of privatisation sweeping the world, Indians began to realise thet they were in a blind alley. But with little political support for full-blown market economics, the government has so far mostly limited itself to trying to run the state-owned machine more effectively instead of handing over sections of it to private sector operators.

An early flush of enthusiasm brought competition into the airline industry, ending the domestic monopoly of Indian Airlines, resulting in great improvemants in quality and time-keeping have resultred, but the momentum has not been maintained.

The government has made much of its disinvestment policy under which shares in 40 enterprises have been sold in tranches to raise a total of Rs110bn. Companies which are now traded actively on the stock market include VSNL – the international telecoms carrier – Bharat Electronics, and the Steel Anthority of India (Sail). But while the government has sold up to 45 per cent of a few stocks, the average disposal is under 15 per cent.

Crucially, the government has retained managerial control. This gives ministers and civil servants rights to promote and transfer directors, sometimes leaving posts open for a year and more for lack of decisions. Investment, financing, and evan trading plans require approval. A bigger emphasis on profits has improved the financial performance of the public sector in the 1990s, although this has sometimes been achieved simply by raising prices in monopoly services such as electrical power for industry.

In the year to the end of March 1996, public enterprises made net profits of Rs98bn, np sharply from Rs38bn in



1989-90. This has been due entirely to profit gains at some 130 or so profitable enterprises. Littla has been done to staunch the red ink at about 100 companies which hetween them lost Rs48bn in 1995-96, more than double the figures of the late 1980s.

These troubled companies include hankrupt private ones, mainly textile mills, taken over by the state to prevent job losses. They continne to pay wages even though production has been suspended for years.

Other lossmakers include fertiliser companies ruined by government price controls designed to protect farmers. The heaviest lossmaker in this sector is Hindustan Fertilisers Corporation, which runs a "white elephant" plant at Haldia, near Calcutta. Some 1,500 people report daily for work at the complex, which has not produced a tonne of output since it was commissioned in 1986 because of fundamental design faults.

"We can't keep putting money in a bottomlese pit," says Mr Murasoli Maran, the industry minister. But he is unclear how the government might close a lossmaker. "We can't do it at a stroke."

As for privatisation, Mr Maran sees a role for private companies in taking over and turning around troubled state-owned businesses, though why entrepreneurs should agree is by no means clear. He is also prepared to see the privatisation of "non-core and non-strategic areas so long as workers keep job security".

However, Mr Maran says the government should retain control of at least the nine biggest profitable enterprises, including Sail, BHEL, the engineering company, and ONGC, the national oil company. "These are our nine gems. Why should we hand them over to anybody?" he says.

Since Mr Maran is regarded as a reformist in the coalition government, even his limited vision meets with suspicions among more conservative ministers. Mr Ramakrishna may wait some time for decisions on his three companies. He denies be is frustrated. He says: "In India, change takes time."

AGRICULTURE • by Quentin Peel

Planting seeds of growth

India needs a second Green Revolution to satisfty growing demand for food

Dr Manohar Singh Gill, India's chief election commissioner, vividly remembers the days in the mid-1960s which are now known as the start of India's Green Revolution.

At the time be was a junior civil servant in his home state of Punjab, when the government took a gamble and decided to buy a shipload of Mexican seed for an untried hybrid wbeat.

"We sold the seed in 1966, and in 1967 we got such a massive crop that the chief minister had to shut down all the schools, right down to primary, because we couldn't find anywbere to store this bloody wheat," he says with a grin.

The result of that experiment was an increase in crop yields in the Punjab, and in neighbouring Haryana, which saw wheat production leap from around 1.5 tonnes to as much as 4 tonnes per hectare. When new rice seed was imported from the Philippines, it had a similar effect, pushing up yields from 1.2 tonnes to 4 tonnes per hectare.

"After the 1966-67 harvest it spread like wildfire," according to Dr Ashok Gulati, chief economist at the National Council for Applied Economic Research in New Delhi. "There was a scramble for the seeds.

"But it wasn't all uncritical. There was a major debata in parliament. Tha left argued that these were sinful seeds. We would be the slaves of the west forever, they said."

They failed to win the day, not least because soaring food production meant that India gained food security, and with it independence from US food aid programmes.

"The Guinness Book of Records had India as the biggest single importer of PL480 (the main US food aid programme) in 1964-65 and 1965-66," Dr Gulati said. "The last shipload was in 1971, when we had the war with Bangladesh.

"The US wanted to twist our arms over the war with Pakistan in 1965. Tbey taught us one good lesson: that food could be used as e political weapon. The 1965 experience was that we must get rid of PL480."

The question today is whether India can repeat its agricultural revolution to feed its inexorably expanding population. For although the impetus of the hyhrid wbeat and improved rice seed caused a one-off surge in production, the annual rate of growth in agriculture has averaged a more modest 3 per cent over the long term.

"People have been talking about a scarcity developing soon, of the Green Revolution running ont of steam," according to one international agriculture expert in Delhi. Non-food output, like oil seeds, cotton and sugar, has been increasing much faster than food grains. Production of coarse cereals and pulses, staple foods in the Indian diet, is growing at less than 1 per cent per year.

Although India has ceased to ba a major net food importer, there are still 300m to 350m people who do not get enough calories per day for an adequate diet – the largest group of poor people in the world. The problem is not so much thet the food is not available for them, as that they hava not got the money to buy it. There is growing prosperity in tha rural areas, thanks to an

Precious wheat – or sinful seeds? Photo: Marcus Clarke

increasing agricultural surplus, existing alongside desperate poverty.

The challenge is thus two-fold: to raise agricultural output steadily to feed a growing, and more prosperous, population; and to ensure a better distribntion of income so that the poverty will also be reduced.

The most dramatic effects of the Green Revolution were restricted to the two states which launched it – Punjab and Haryana. The drive is on to export the lessons across the country, and particularly down the plain of the Ganges river, to Uttar Pradesh, Bihar and West Bengal.

Dr Gill, wbo rose through the ranks of the Indian administrative service to become agriculture secretary in New Delhi, is clear that the revolution was not simply a miracle of science.

"The Punjab revolution was a revolution of inputs," be said. "We needed more fertiliser, and we needed more water, and for both we needed more credit."

More than that, Punjab's former chief minister, Mr Sardar Kairon, had pushed through a programme of land consolidation, concentrating the proliferation of small-holdings into 10-acre plots.

The size of land holdings across the rest of the country is tiny, and the sverage size is coming down: 78 per cent of the peasants with land have less than two hectares. Some 58 per cent are "marginal" producers with less than one hectare.

"The holdinge are too small and they don't have the capacity to borrow," said Dr Gulati. "Credit is the lifeline, after water. It enables them to buy fertiliser and seeds.

"They also lack the infrastructure, both roads and electricity. They have to rely on diesel generators, which raises their costs."

"I believe all people want regular and assured supply of power more than cheaper power," said Dr Gill. His other great concern is to regulate the use of irrigation.

"We continue with 19th century flood irrigation: it is wasteful of water and damaging to the land. Over the past 50 years our irrigation system should bave been totally traneformed, witb prevention of all wasteful use. This hasn't happened."

Dr Gulati's principal criticism of government policy is its failure to reverse the in-huilt pricing bias towards industry. The cost of subsidising fertilisers and electricity to rural areas is more than outweighed by the low producer prices paid to farmers, and the protection given to industry, he argues.

Tbe government's economic liberalisation has at least begun the process to reduce that discrimination.

In spite of the slow progress, Dr Gulati believes that "a buge transfer of income is taking place. The agricultural markets are bubhling with activity. All the advertising is switching to agriculture. The big corporations see it as a future market."

Over the next decade he believes India can maintain the positive results of the Green Revolution, with steady increases in production from the eastern states of the Ganges plain. Over 20 years, he is more cautious.

"If tbere are no tecbnological breakthroughs, then India could be under pressure again. But I have faith in buman knowledge," he says.

ECONOMIC DEVELOPMENT • by Amartya Sen

Education, healthcare needed to beat poverty

Illiteracy delays achievement of tasks set at Nehru's 'tryst with destiny'

It was a thrilling moment. On August 14 1947, on the eve of independence, we glued ourselves to the radio in our little school e hundred miles from Calcutta. It was four years after the terrible Bengal famine of 1943, which gave many of us, for the first time, the enduring thought that "there hut for the grace of class, go I".

In celebration of independence and a forthcoming democracy, Jawaharlal Nehru's voice beamed out over the radio, telling us about India's "tryst with destiny". The task ahead, we were told, included "the ending of poverty and ignorance and disease and inequality of opportunity".

Fifty years is a long time. It is not too soon to ask what came of that tryst with destiny, and of the tasks ahead. The answer is not simple. In line with Nehru's formulation, we can split the evaluation into three fields: the practice of democracy; removal of social inequality and backwardness; and economic progress.

In the first area there are reasons for satiefection. Elections have continued with regularity and reasonable fairness. The press has remained largely free, civil rights are in place and the military has stayed inside the barracks.

The second field, social progress and equity, has fared mnch worse. Not quite an immeasurable failure, but certainly a measurable flop. For every student China sends to the university, India sends six. But, while China made remarkable progress towards universal literacy even before the economic reforms in the lste 1970s, nsarly balf of the adult population of India and two-thirds of adult women are still illiterate.

Life expectancy at birth in India has climbed to about 60 years, from close to 30 at the time of independence. But mortality rates differ sharply between classes and between urban and rural areas, with many rural residents far removed from decent medical attention. Inequalities between women and men remain large.

Finally, India's economic progress has been relatively slow, particularly compared with the spectacular performance of east and south-east Asian economies. The growth of gross national product has now speeded up a bit, with recent governments trying to emulate the economies further east by relying more on the market and on international trade, reducing government control of industrial operations and exchange.

There has, however, been s serious misreading of whet has led to the economic success of Sonth Korea, Taiwan, post-reform China, Thailand and other countries in the region.

These conntriee emphasised international trade and competition and made fine use of the market mechanism. But they also ensured broad-based public participation in economic expansion by promoting good schools and high literacy, good healthcare, widespread land reforms, removal of harriers to economic mobility and some fostering of gender equity, not least through education and tbe employment of women.

Indie, too, can acbieva high growth of aggregate GNP since there are so many literate people aroond. It can do particularly well in industries that use India's advantage in higher education and technical training. New centres of technical excellence, such as Bangalore, can prosper and flourish.

Yet even 100 Bangalores would not solve India's poverty and deep-seated inequality. For this to happen many more people must participate in growth. This will be difficnlt to achieve across the barriers of illiteracy, ill health, and inequalities in social and economic opportunities. This issue needs more attention than it is receiving.

If the social and economic tasks are so inter-related, what about the linkage with the politics of democracy? It has frequently been claimed that democracy is inimical to fast economic growth. But there is little statistical evidence to confirm this. Indeed, even India's limited recent success in raising economic growth shows that growth profits more from a friendly economic climate than from an oppressive political one.

India has certainly benefited from the role of democracy in giving the rulers political incentives to act when disasters threaten and when an immediate change in policy is imperative.

India has successfully avoided famines since independence.

Mrs Indira Gandhi's brief attempt at suppressing basic political and civil rights and imposing compulsory sterilisation in the 1970s were firmly rejected by the voters. Even today India is in a better position than China to prevent abuse of coercive power and make quicker changes if and when policies go badly wrong.

Democracy also gives an opportunity to the opposition to press for policy change even when the problem is chronic rather than acute and disastrous. Thus the weakness of Indian social policies on edncation, healthcare, land reform and gender equity is as much a failure of opposition parties as of governments. Committed political leaders in authoritarian countries have often achieved more in these respects. The educational and health achievements of Maoist China illustrate this.

Only in some parts of India have social problems been brought effectively into the political arena. The state of Kerala is the clearest example. Among its achievements are:

- Life expectancy of 72 years – 74 years for women.
- Close to universal literacy.
- A fertility rate of 1.8 – similar to that in Britain and France and lower than in China, in spite of the last's use of compulsion.

Kerala has improved the quality of life of both women and men dramatically. Yet it bas heen very slow in reforming its anti-market economic policies. People from Kerala have easily earned good money working elsewhere, often abroad. But economic opportunity at home has remained limited. This has not prevented Kerala from having one of the fastest reductions of poverty in India, hut its full economic potential remains unrealised.

The road ahesd will depend much on combining preservation of democracy with rapid social progress and further economic reform. It needs to expand the scope for competition, incentives and openness, while removing barriers to mobility and equity.

India has suffered in the past half century from ignoring the need for such an integrated approacb. The tendency towards partial neglect, especially of social development, has not been adequately reversed.

Since in a democracy like India changes have to take place through public discussion and debate, the first step is to understand the nsed for an integrated approacb. What Nehru called "the great triumphs and achievements that await us" will continue to wait unless this interdependence is more widely realised – in theory and practice.

● *The author is Lamont University Professor and Professor of Economics and Philosophy at Harvard University.*

healthcare
beat poverty

OVERVIEW • by Mark Nicholson

Small parties hold key as Congress fades

Many see a switch to the federalism intended by the founding constitution, which was distorted under decades of Congress party rule

Holding an election for India's 600m voters is akin to holding simultaneous polls in Russia, North America and most of Europe. Not only is India the biggest democracy – some constituencies embrace 2m voters – it is also among the most culturally, regionally, linguistically and theologically diverse. A complex electoral verdict might be expected.

This is precisely what India's voters delivered in last year's general election. No party won a majority in the 543-seat parliament. Instead, united in the aim of keeping from power the "communal" Hindu nationalists of the Bharatiya Janata party (BJP), more than a dozen small and ideologically disparate parties combined to form the current United Front government.

For the time being, India is governed by a minority coalition which commands only 176 seats. It is supported from "the outside" by both the Congress party, which was handed an historic defeat in the last elections, and India's main communist party, tha West Bengal-based Communist party (Marxist). Such complex arrangements seem to be here to stay.

Most pundits conclude that India, has entered a period of coalition politics. No Indian party has won a governing majority in 13 years. The last to do so was Congress, which won 415 seats and 48 per cent of the popular vote in 1984, in a mood of national consolidation and sympathy after the assassination of Mrs Indira Gandhi.

But the era of the 111-year-old Congress party is passing. The party which led India to independence and had governed for all but five years since, is now in secular decline. Its share of the vote has fallen at each election since 1984, dipping below 30 per cent last May.

The party's traditional internal coalition of upper castes, Dalits – the lowest Indian caste, once known as "untouchables" – and Moslems has splintered, often into new regional and caste parties. Its motifs of "secularism" and, latterly, economic reform, have been appropriated by such groups.

Only the BJP now believes it can supplant Congress as a national governing party. It raised its tally of seats in the last poll to 161 from 120 in the 1991 elections, eclipsing Congress's 140 to make it the biggest single party. Its leaders believe it can nudge close to outright majority in the next elections. But the BJP, too, has recognised the need for coalition allies.

BJP support is heavily concentrated in western and northern states. It has already forged alliances with regional parties in Punjab and Maharashtra state, and is courting southern regional parties with an eye to the next elections. It is such smaller parties which provide the real dynamism to India's changing political map.

There are, very broadly, two main trends to watch. One is the bitter and unresolved battle of caste-based parties in such big, poor and populous northern states as Uttar Pradesh, Bihar, Rajasthan and Madhya Pradesh. Both the Bahujan Samaj party, crusading for the "empowerment" of Dalits, and the Samajwadi party, which draws support largely from the non-Brahmin "backward castes" of northern India, are vying for power in Uttar Pradesh, while also seeking to extend their reach through their caste bases and across state borders.

Elsewhere, in the north-east and most particularly in the south, strong regional Telugu parties have arisen, such as the Telegu Desam party in Andhra Pradesh and the Dravida Munnetra Kazhagam and Tamil Maanila Congress parties in Tamil Nadu.

Their emergence is in part a reaction to the Delhi-centrism of the once-dominant Congress, many of whose policies the new regional parties have adopted, while also offering closer accountability to voters. Their growing political strength has been given economic impetus by the decentralisation offered by India's six-year-old economic reforms, which have handed the states new economic incentives and powers.

Such caste and regional parties comprise the core of the United Front. Whether the fractious Front remains united or not, its component parties and other smaller groups will almost certainly determine the shape of India's next government.

Many see this as returning India to the intended federalism of its founding constitution, one which had been distorted under decades of Congress rule by the combined effects of Mrs Indira Gandhi's centralising political grip and her statist economic policies.

The new regional political barons will be reluctant to cede political gains. As the chief minister of one state puts it: "Before, chief ministers were chosen by the government at the centre. Now it is the chief ministers who will decide who is to be prime minister."

VIEWPOINT

Partition clouded moment of glory

Moral power of Mahatma Gandhi failed to leave a legacy of secularism

At a prayer meeting in 1946 Mahatma Gandhi said: "Before partitioning India, my body will have to be cut into two pieces." Yet a year after this emphatic statement, ha urged tha Congress party to accept partition.

India attained the independence for which Gandhi had fought so long, but in the process it becama divided. Nearly 1m people died in the carnage which followed, and ever since India has suffered persistent tension and violence between its Hindu and Moslem communities.

Mr Eric Hobsbawm, the historian, wrote: "We can see, with the wisdom of hindsight, the partition of India along religious lines established a sinister precedent for the world's future."

For Gandhi, the moment of glory was also a moment of colossal shame. The blood-letting in communal riots marked the failure of his life-long mission to foster Hindu-Moslem unity. To the question "How should Hindu-Moslem question ba tackled?" Gandhi admitted: "I must own defeat on that point."

His answer to communal problems was to use his moral power to try to bring peace, but his technique began to produce diminishing returns.

A few months before independence Gandhi went to Noakhali, now in Bangladesh, in an attempt to bring communal peace. Moslems boycotted his prayer meetings. At the time of independence in August 1947 he said of his own peace mission to Calcutta to try to prevent rioting: "What was regarded as the Calcutta miracle has proved to be a nine-day wonder."

It is not surprising that towards the end of his life Gandhi felt defeated and dejected.

On his last birthday he said: "If I had the impertinence openly to declare my wish to live 125 years, I must have the humility, under changed circumstances, openly to shed that wish. I have done no more, no less. This has not been done in a spirit of depression. The more apt term, perhaps, is helplessness."

Jawaharlal Nehru and Sardar Vallabhbhai Patel, respectively the first prime minister and home minister, are sometimes blamed for acceptance of partition. Those who do so present Gandhi as a helpless old man who could not say "no" to disciples restless to enjoy the comfort of office.

But the question of partition did not arise all of a sudden. It was in the making for many years, during which Gandhi was effectively in command of the Congress movement. Partition was accepted by Gandhi and the Congress because the alternative was seen to be Hindu-Moslem civil war.

Yet they cannot have been right if they thought that the end result of such conflict would be more ugly than partition.

Mahatma Gandhi: mistake over religion and state Camera Press

Even Gandhi did not always succeed in separating religion and politics. He failed to oppose electorates separated along religious lines. And in the 1920s he supported the Khalifa movement, a pan-Islamic movement centred in Turkey, to win the support of Moslems in India.

Later he realised his mistake and said: "If I were a dictator, religion and state would be separate. I swear by my religion, I will die for it. But it is my personal affair. The state has nothing to do with it."

He could not live down the Khalifa image, however. The mixing of religion with politics was legitimised in the eyes of some people.

The Khalifa movement also resulted in a woolly-headed approach of the nationalist movement towards communalism. It was not sufficiently appreciated that communalism naturally excludes some religious groups from the process of nation-making. Gandhi tried to co-opt Moslem communalism into the secular nationalist mainstream, but this attempt was bound to fail as have subsequent attempts by Indian governments.

More than 100 years ago Indians set out on the historic task of building a secular nation. For 50 years Indians blamed the British for putting roadblocks in their path. For the past 50 years, they have been their own masters. Yet the demon of divisive communalism still plagues the nation. Gandhian secularism is not standing the people in good stead.

● *The author is consulting editor of the Telegraph, Calcutta*

'Awake to freedom'

Jawaharlal Nehru, India's first prime minister, wanted to build a 'noble mansion' of freedom. Here, we reproduce the speech he gave to the Constituent Assembly in New Delhi on August 14, 1947

"Long years ago we made a tryst with destiny, and now the time comes when we shall redeem our pledge, not wholly or in full measure, but very substantially.

At the stroke of midnight hour, when the world sleeps, India will awake to life and freedom. A moment comes which comes but rarely in history, when we step out from the old to the new, when an age ends, and when the soul of a nation, long suppressed, finds utterance. It is fitting that at this solemn moment we take the pledge of dedication to India and her people and to the still larger cause of humanity.

At the dawn of history India started on her unending quest, and trackless centuries are filled with her striving and the grandeur of her successes and her failures. Through good and ill fortune alike she has never lost sight of that quest or forgotten the ideals which gave her strength. We end today a period of ill fortune and India discovers herself again.

The achievement we celebrate today is but a step, an opening of opportunity, to the greater triumphs and achievements that await us. Are we brave enough and wise enough to grasp this opportunity and accept the challenge of the future?

Freedom and power bring responsibility. That responsibility rests upon this assembly, a sovereign body representing the sovereign people of India. Before the birth of freedom we have endured all the pains of labour and our hearts are heavy with the memory of this sorrow. Some of those pains continue even now. Nevertheless, the past is over and it is the future that beckons to us now.

That future is not one of ease or resting but of incessant striving so that we might fulfil the pledges we have so often taken and the one we shall take today. The service of India means the service of the millions who suffer. It means the ending of poverty and ignorance and disease and inequality of opportunity. The ambition of the greatest man of our generation has been to wipe every tear from every eye. That may be beyond us but so long as there are tears and suffering, so long our work will not be over.

And so we have to labour and to work, and work hard, to give reality to our dreams. Those dreams are for India, but they are also for the world, for all the nations and peoples are too closely knit together today for any one of them to imagine that it can live apart. Peace has been said to be indivisible, so is freedom, so is prosperity now, and so also is disaster in this one world that can no longer be split into isolated fragments.

To the people of India whose representatives we are, we make appeal to join us with faith and confidence in this great adventure. This is no time for petty and destructive criticism, no time for ill-will or blaming others. We have to build the noble mansion of free India where all her children may dwell."

DEMOCRACY • by T.N. Ninan

Does democracy work? Yes!

In a society that is sadly unequal, the vote has brought with it a sense of equality

If anyone should ask "Does democracy work in India?" the answer is yes. Elections take place regularly. The people choose their rulers. Governments are thrown out.

Yes, because India remains an open society in which grievances are aired and redress is possible. Yes, because the system is responsive. As the economist Mr Amartya Sen has said, China has had millions of deaths resulting from famine under communist rule, but this has not happened in India because even one report of a "starvation death" causes uproar in parliament.

Yes, because the system has assimilated and absorbed. Violent communist groups, separatists and other assorted insurgents have slowly been made part of the system. Nothing other than an open, unbridled democracy could have done this and kept together the most diverse country in the world.

Yes, because although Mahatma Gandhi used non-violence to bring an end to British rule, India is a very violent society. Caste killings, ethnic clashes and communal riots are an ever-present reality. Democratic methods provide a non-violent way of dealing with conflicts.

Yes, because there is very real and continuing debate about the big issues: secularism versus communalism, right versus left, centralism versus federalism. And because, even in a society that is still sadly unequal, the vote has brought with it a fundamental sense of equality.

But one can compile another, very depressing list. India has more wretchedly poor, more illiterates, more blind and more homeless than any society on earth. China may have had mass famine deaths under the madness of Mao Zedong, but India has many more malnourished.

Democracy in action: Indians queue to vote at polling booth

Photo Marcus Oleniuk

Governments do get thrown out regularly, but governance is poor and getting worse. Mr B.K. Nehru, the distinguished civil servant and nephew of the first prime minister, says in his memoirs that India at independence had a better administration than many developed countries. Today it is below par in Asia.

Petty bureaucratic tyranny over ordinary citizens is an every-day reality but, strangely, not an electoral issue. Corruption is endemic, and a constant topic of debate even as the canker spreads.

It is no surprise then, that almost any service that is supposed to be provided by government is a disaster. The water in the cities is often not safe for drinking; failures in public health cause epidemics and less than one-sixth of the money spent on "anti-poverty programmes" reaches the poor, as Mr Rajiv Gandhi once said.

The police force is widely seen as a lawless body of extortionists and worse.

The problem, as Mr Manmohan Singh, a former finance minister, has said, is the lack of an "establishment" in India – a class that defines its interest in a very long-term context, certainly much longer than the politician's horizon of the next election. And since anything goes in an election, from illegal funding of campaigns to promising an endless stream of subsidies, the currency of politics has been debased.

Politicians have promised and delivered free water and free electricity, and even written off bank loans. The endless debate never focuses on the question: who will pay?

The socialist ideal – still an essential part of the language of politics – meant taking from the rich and giving to the poor. But the rich figured out ways of not giving, and the state ended up trying to provide freebies. Subsidies in the system now account for more than one-seventh of gross domestic product. Very little of this goes to the poor.

The real takers therefore – and this lies at the core of the hypocrisy in the system – have been the development of interest groups resistant to market economics. So communists who speak for the poor will stubbornly resist any move to charge car owners – of whom there are fewer than 2m in a country of 1bn people – the full cost of petrol.

There has been very little debate in the country about whether democracy helps or hinders development. There is no way to establish whether a more controlled democracy in India would have delivered better economic returns.

The experience of Mrs Indira Gandhi's emergency rule from 1975 to 1977 quickly led to a greater taste for democracy, and it is doubtful whether the country would have held together without retaining an open system.

But this much is certain: all too often, the language of politics is far removed from economic rationality. Even today, politicians criticise the reform process in the name of the poor.

Perhaps the greatest divide in India is not so much between rich and poor, but between those who mean what they say and those who do not. Ministers have legislated tax levels that have been the highest in the world, but "forgotten" to pay their own taxes for years. Parliamentarians will demand the use of Hindi in all government offices while sending their own children to English medium schools. Hypocrisy rules even as democracy reigns.

The negative trends have undermined the legitimacy of the political system. People cheer when the courts start at last to turn their attention to politicians. Yet scandals in the press that would have caused an almighty uproar a decade ago now evoke a yawn. Everyone knows that the system stinks.

But it would be completely wrong to become a pessimist. In many ways the system is becoming stronger. The courts have become more assertive, so that even the rich and powerful know that the law can catch up with them.

Media penetration has increased exponentially: there are more than 50m television sets in the country, on which you can watch a prime minister losing a confidence vote at the end of a marvellous debate.

Newspapers are enjoying a rapid increase in circulation. The people now know and see much more, which is one reason why re-election is becoming more difficult.

Even economic policy is becoming more rational. Private operators are being allowed to challenge government-owned providers. Pricing decisions are more market-determined, and with the new spirit of federalism, government is getting closer to the people.

So, however much it may seem like anarchy, it does work.

● *The author is editor of Business Standard.*

CONGRESS PARTY • by Prem Shankar Jha

Death throes debase a nation's politics

The party which fought for freedom seems unable to regain former glory

In the December 1984 elections, the Congress party under its fledgling leader Mr Rajiv Gandhi secured an unprecedented 48.1 per cent of the vote and 415 out of 542 parliamentary seats.

Not even in the heyday of Mr Jawaharlal Nehru, India's first prime minister, had the party achieved such an overwhelming victory.

Mr Gandhi's victory seemed to epitomise the emergence of a new generation of leaders in the party.

On becoming prime minister seven weeks earlier after the assassination of his mother, Mrs Indira Gandhi (Nehru's daughter), his first act had been to bring in a new group of young advisers in their forties and early fifties – professional managers and technocrats.

The election results showed that the country overwhelmingly approved. The party which had led India to independence seemed not only to have had a second birth, but to have attained the apogee of its power.

The truth was different. The Congress party had been dying slowly for 17 years. Its death throes had transformed and debased Indian politics, creating problems with which the country is still wrestling. The 1984 result was a false dawn: in 1989, the party won only 198 seats; in 1996, it was reduced to 140 seats and a mere 29 per cent of the vote.

The decline of the Congress began shortly after the death of Nehru in 1964 but became apparent during the 1967 election. The party's share of the vote dropped to 40.8 per cent and it won 283 seats, just 10 more than it needed for a majority. It lost its majority in the Assembly elections in six states and was ousted from power in five of them.

Over the next 18 months its leaders took a series of decisions that stunted the development of multi-party politics as well as intra-party democracy, and paved the way for the criminalisation of politics and the rise of sycophancy.

The first move was to pull down four non-Congress state governments in northern India by triggering defections from coalitions in power. This was done by approaching an influential group in each coalition, led by an ambitious politician who felt he had not received sufficient recognition.

Had their development not been aborted, stable coalitions might have developed in each case which might have delivered a three-party system in India. But in 1967, and in the years that followed, Congress repeatedly nipped this possibility in the bud.

Another fateful decision in 1967 was a ban on donations by corporate enterprises to political parties. In theory, the ban applied equally to all parties. But since Congress was in power it was able to collect money in cash with impunity while holding the threat of prosecution over the heads of those who dared to make donations to the opposition.

The effect on Congress was equally disastrous: within five years, what had been a cadre-based party became a coalition of caucuses each centred around a money collector whose power was measured by the funds he could raise.

As these funds had to be unaccounted, this opened the way for holders of "black money" – money held outside the regulated economy to evade tax or foreign exchange controls – to enter the party.

Thus, in attempting to destroy the opposition, Mrs Gandhi made her own party less governable. First she split the Congress in 1969 to purge it of powerful organisational leaders. Then she misused Article 356 of the constitution, which allows the central government to dismiss state governments in cases when the administration has broken down, to break the power of the state leaders of her party.

The last attempt to reform the party and renew its vitality was made by Mr P.V.Narasimha Rao, who became prime minister in 1991. Mr Rao tried to get a genuinely elected Congress Working Committee – the 21-member policy making body. But he was forced to abandon the attempt when he discovered that the two main caucus leaders had combined to defeat his list of candidates with the understanding that they would share the spoils after they had ousted him from the premiership.

Congress now seems unable to respond to reverses. After defeats in a host of state elections in December 1994, the party had a full 18 months in which to take remedial action before the 1996 general elections. But it did nothing and suffered an historic defeat.

After that defeat, Mr Rao paid the price for his inaction, but the only person the party could agree upon as leader was the 78-year-old Mr Sitaram Kesri, previously party treasurer. In April 1997, Mr Kesri withdrew support from the 13-party United Front coalition and insisted that Mr H.D.Deve Gowda, the prime minister, should resign. Mr Kesri demanded that Congress be part of the next coalition.

Though Mr Deve Gowda was replaced, Mr Kesri proved incapable of striking a commanding posture, and the public saw his move as the final bid by a corrupt and incompetent party to grab power.

● *The author is a political columnist and former newspaper editor*

JAWAHARLAL NEHRU • by Shekhar Gupta

Visionary leader's legacy disappoints

Fundamentals were overlooked in a race to make up India's lost time

It is cruel to make an assessment of Jawaharlal Nehru's legacy just when India's recent leaders, none of them national figures in his mould, have spent the past decade dismantling it.

The question is, had Nehru been alive and possibly still running the government, would he have seen India differently?

Nehru was a romantic, a man far ahead of his times in the poor and largely illiterate nation he inherited, and intellectually in a league vastly superior to most of his peers. The resultant contradictions continue to dog his legacy and memory.

Here was a committed democrat whose very intellectual stature, combined with popular adulation, virtually gave him the status of a dictator. Most of his contemporaries in national politics, and within the Congress, were overwhelmed by his personality.

Nehru took immense pride in native Indian enterprise and creativity and yet, unfortunately, will be remembered now as the founding father of its hopelessly inefficient public sector and, more damagingly, socialist mindset.

Finally, how tragic that a man so fiercely committed to ideas of modern, liberal democracy, would continue to be judged by the record of a political family dynasty he founded.

Though he practised his politics for nearly five decades at the feet of the Mahatma, Nehru was more influenced by the great liberal thinkers of the West. He bitterly rued the time that Indian civilisation had lost, as colonialism coincided with the decline of the Mughal Empire.

In 1947, therefore, he was a man in a hurry, hoping to telescope these lost centuries into decades – or more accurately half-decades, since he instituted India's enduring regime of "five-year plans".

Independence, democracy and modernism were his three passions. But philosophically the last of the three was the dominant theme in his ideal, modern world – democracy and its attendant freedoms would follow as natural corollaries.

As the decline of colonialism was still a new phenomenon, there were no tested models available for him either to emulate or eschew. A lesser man would have baulked at the enormity of the challenge: moulding a new nation-state consisting of hundreds of feuding principalities, caught up first in a communal holocaust, two wars with its newly-acquired neighbour (Pakistan) and then a great human migration that carried on well into the 1950s.

Nehru not only tried but also believed passionately that he and his people could set an example for the other newly-independent countries. Perhaps one reason it did not quite work the way Nehru had dreamed was the naivety which romanticism brings in its wake.

He did travel around the country, inaugurating new dams, public sector steel plants and power units, calling them temples of modern India, but overlooked the fact none of this was going to lead to sustainable economic growth unless private enterprise grew alongside.

In Nehru's defence you could say that some part of that blame must also be shared by India's first entrepreneurs, many of whom were Nehru's friends, and even active participants in the independence struggle. They were quick to see the gains for themselves in the "licence permit raj" and became active accomplices in institutionalising an industrial regime that was, in fact, a government-backed protection racket.

Maybe Nehru would have seen through this now. But should not a leader of his intellect have been wiser in the first place?

Not even Nehru's harshest critics can deny that his heart was in the right place. He understood that India needed to industrialise rapidly. He built its great scientific institutions, personally backed nuclear research, and even laid the foundations of its armament industry. But somewhere in this great rush to make up for the lost centuries, he forgot that none of this was going to be possible without harnassing India's real strength – the centuries-old tradition of free trade and enterprise.

Nehru's greater flaw was the almost fatal romanticism that marked his world view. In his ideal world, there could be no wars, no military blocs, no border disputes and no issues that could not be sealed through negotiations. In such a world, therefore, there could also be no real security threats to his own nation.

He worried about Pakistan rapidly modernising its armies, as a US ally, but did not know how to cope with it. So he began a painful tilt towards the Socialist bloc, as the West evolved into a natural adversary.

But the war with China in 1962 heightened Nehru's growing feeling of frustration and inadequacy.

All of Nehru's biographers agree at least on one point: that he died, in May 1964, a defeated, bitter man. Defeated not merely because his country had lost a war, but also because its sluggish economy and society had failed to realise the goal the dreamer had set for them.

Staunch Nehruites, and many survive in India, believe that despite his legendary stubbornness, Nehru did not have a closed mind. They argue that the shock of 1962 would have resulted in the emergence of a post-Socialist Nehru more focused on his nations vital interests than the state of the world.

It is a pity he did not live long enough to prove them right.

● *The author is Chief Editor of The Indian Express*

INDIRA GANDHI • by Stanley Wolpert

Daughter became a focus of love and hate

She dreamed of leading as Joan of Arc did – but never imagined a death as shocking

Mrs Indira Gandhi's father, Jawaharlal Nehru, called her "darling Indu boy". Her Congress president Barooah called her "India". His mantra was "India is Indira, and Indira is India". In the aftermath of the 1971 Bangladesh war many simple folk worshipped her as "Mother Goddess".

More sophisticated Indians hated her totalitarian streak – especially when, to save her own political fortune, she suspended India's constitution and proclaimed a national emergency that lasted almost two years. To keep herself out of prison she locked thousands of innocents behind bars.

One of those she incarcerated was Jaya Prakash (JP) Narayan, Nehru's old socialist friend, who later labelled her a "dictator". Another leader she ordered arrested was Morarji Desai, who imprisoned her in turn soon after he became premier five years later.

Mrs Gandhi's arrest and brief detention, however, converted her from tyrant to martyr in the public's eye, and helped her to win re-election a year later, reclaiming the crown she had tarnished and disgraced during her Emergency Raj.

As Nehru's sole heir she had inherited his nationalist as well as socialist passion with his fortune. From many imperial prison cells Nehru poured out his British public school learning to "Indu boy" in weekly letters on "world history", training her to take up the torch of political power.

Mrs Gandhi proved almost as adept at winning power as her more brilliant Papu had, inheriting the premiership he had held for 17 years, soon after his death in 1964. She enjoyed it for 15 years, with only a brief interregnum. Her gender proved no obstacle to a swift rise to the top of Delhi's slippery pole.

She inherited all of her father's socialist faith in economic planning and the Soviet Union, but little of his wiser admiration for British parliamentary democracy and western liberal justice. She believed she knew what was best for India, and may have tried sincerely to move its polity ahead at a more "efficient" pace, making its "trains run on time" during her Emergency Raj, fuelled by repression and fear.

But she damaged many of India's government institutions, including the once coveted civil administrative service and the independent judicial service. By intimidating and summarily transferring senior members of both to independent services for selfish and impure political reasons, Mrs Gandhi crippled India's polity, even as she dealt an almost fatal blow to its constitution from June 1975 to April 1977.

Her most important foreign policy legacy was the liberation of Bangladesh from Pakistan in 1971. In the face of US support for West Pakistan's martial actions to silence the nationalist Awami League opposition in East Pakistan, Mrs Gandhi turned to the Soviet Union for arms and the United Nations for political backing as the Indian army fought the war which brought about an independent Bangladesh.

As India's army liberated Bangladesh with Russian tanks and artillery that December, capturing 90,000 Pakistani troops, Mrs Gandhi now emerged triumphant, hailed as India's greatest leader in war as well as peace.

But the tragic legacy of that Bangladesh war was that India and Pakistan started immediately to develop nuclear capability. Their wily leaders, Mrs Gandhi and Mr Zulfikar Ali Bhutto, vowed never again to be at the mercy of any external power. In 1974 Mrs Gandhi demonstrated that India had won south Asia's nuclear race by triggering a nuclear blast under Rajasthan's desert, powerful enough to be felt in Pakistan's most populous city, Karachi.

But with rampant inflation, led by Opec oil prices, and stagnation in virtually every area of India's economy, vocal criticism of "Madam" and her "corrupt" and "self-serving" government grew louder, spreading with labour unrest across all of North India.

India's left wing Congress (I) was soon faced with a formidable coalition of political opponents to the right and left, a coalition that called itself the Janata Morcha (People's Front), led by JP Narayan and Morarji Desai. In early June 1975 she was faced with her own conviction on two counts of campaign malpractice, the mandatory punishment for which would deny her elective office for six years.

Instead of gracefully stepping down, Mrs Gandhi listened to her ambitious younger son, Sanjay, whose brazen advice was to cut the power to Delhi's national press district, scrap the constitution, and proclaim a national emergency – assuming dictatorial powers, banning every opposition party and throwing all her "enemies" into jail.

That was a new low for India, but even Mrs Gandhi soon felt obliged to hold fresh elections, hoping that all the lies her controlled press told about her "popularity" might be at least half true. India's outraged electorate proved itself wiser than Madam and Son, voting them out of power in 1977.

But bickering within the Janata Party and Morarji's mistake in arresting her, brought Indira back for a second term. Her dynastic arrogance, however, and her fatal error in launching Operation Bluestar, sending army tanks and troops to the most sacred grounds of Amritsar's Golden Temple in June 1984, triggered her assassination by two of her own Sikh bodyguards that October.

Three of India's darkest days followed, with the disgraceful massacre of thousands of innocent Sikhs in Delhi and across north India. Delhi was left burning, defenceless, dishonoured. A month later, however, Madam's other son, Rajiv, won a landslide victory for the Congress party he now led - his brother had been killed in an aircraft crash. The sympathy vote for his mother gave the dynasty a few more years of power.

Mrs Gandhi's reign most harshly and cruelly tested the strength of India's democratic pluralistic polity, which happily proved too resilient and deep-rooted for Mrs Gandhi to destroy.

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Indira Gandhi: inherited twin passions

BHARATIYA JANATA PARTY • by Mark Nicholson

Auguries strong for nationalists

Victory may be by default rather than endorsement of policies

After several years of minority governments, cobbled coalitions and fractious political manoeuvring at the centre, India is ready to elect a strong, united, and ably-led national government.

That, anyway, is the belief among leaders of the Bharatiya Janata party, which emerged from India's last elections as the biggest party, with 161 seats. They suggest the Hindu nationalist party will emerge from the next election in a position to govern.

The auguries are good. Recent opinion polls and local election results suggest support for the BJP has grown since last year's elections. Some surveys suggest its share of the vote might rise from 20 per cent last year towards the likely share of a diminishing Congress party, perhaps 25 per cent.

Most encouraging of all for the BJP is the disarray among India's other "national" parties. Congress appears in precipitous decline. The Janata Dal, the core of the current United Front coalition government, is wrenched with feuding between its baronial leaders in Bihar.

So, confident that the ideologically-disparate UF will rip itself apart within the next year, the BJP is bracing for early elections. "Indians are waking up and saying 'Let's pull this thing together'," says Mr Jaswant Singh, a party leader.

But, for all this, there is no apparent fervour for the BJP, and certainly no sign of the "Hindu wave" of the late 1980s which propelled the party from just two seats in the 1984 elections to 86 in 1989 and 120 in 1991. If the BJP emerges in a position to govern, the signs are this will be more by default than any ringing endorsement of its policies.

This in itself raises questions about how much further the party can go.

No Indian party, excepting perhaps the communists, offers a clearer political identity. Under its defining motif of "Hindutva" – a quasi-cultural, quasi-religious appeal to "Indianness" – the BJP stands for a strong, united Indian nation.

Its proponents say this is an ideology of unification and Indian identity. Its critics brand it an exclusive Hindu philosophy, a "communal" and divisive thinking which, to define itself at all, requires the categorising of an "other" – Moslems and Pakistan most commonly, but including the US, the west and others.

Controversially, party leaders have been in the vanguard of moves to build Hindu temples on sacred sites occupied by Islamic mosques. The epitome was the campaign in the late 1980s to build a temple on the site of the Babri Masjid mosque at Ayodhya in Uttar Pradesh, in Hindu mythology the birthplace of the god Ram.

Although party leaders distance themselves from the destruction of Babri Masjid on December 6 1992, there is evidence that BJP leaders were complicitous in preparing and urging on the hundreds of thousands of zealots who ransacked the structure. Some senior BJP leaders stood and watched the ugly spectacle.

But, whatever its involvement, December 6 proved a defining moment for the BJP. It marked the crest of the "Hindu wave", a surge of political sentiment with complex sources. In part, analysts suggest, it derived from a feeling of "minorityism" among Hindus in the so-called "Hindu belt" of north India, chiefly in Uttar Pradesh state, spurred by feelings that the Congress party had started offering "appeasing" policies to the Moslem minority.

But many saw the tide arising from a growing political fear and anger among upper caste Hindus at the policies introducing mandatory quotas of government jobs for lower, "backward" castes – and to the rising political assertiveness of lower castes in general.

The BJP's core constituency has tended to be among upper caste, Brahmin Hindus. It still tends to be dominated by urban and mercantile classes – one reason why it favours market-oriented policies. But for all its efforts, the party has had trouble spreading its message more widely.

Although its leaders strongly dispute it, the issue of caste may pose one of the BJP's chief problems in sustaining its drive to replace Congress as India's "natural" governing party. The BJP has in recent years won a series of state elections across a swathe of north and west India, but in many of its key states internal battles have tarnished its cherished image as a "party with a difference", meaning a "cadre-based" party more disciplined than Congress.

Elitism and selectivity has been at the core of the BJP's success. Much of its reputation for "discipline" rests on the influence in the party of the Rashtriya Swayamsevak Sangh, a cultlike, dedicated and hierarchical brotherhood formed in the 1920s and devoted to Hindu revivalism. The RSS claims to be a "cultural" movement and apolitical, but almost all the party's national leaders are or have been senior RSS figures. The hundreds of thousands of RSS members provide the heart of the party's grassroot strength.

But as the party has expanded, so the number of non-RSS members has grown. One of the party's chief challenges, therefore, will be to retain its distinctive "discipline" and ideological purity, while also expanding its mass base.


Flying the nationalist flag: a BJP rally in Bihar Photo: Marcus Oleniuk

Another will be its attempts to win support outside its traditional heartlands, particularly in the south. The BJP won only six seats of 131 in the southern states last year.

The 1996 elections produced a strong showing for a host of regional parties. But BJP leaders say this represents only a "temporary" political dislocation, and is a by-product of decaying Congress party support.

They say this of necessity, since the basis of the BJP's ideology rests on its unifying appeal to central themes of Indian nationalism.

"It is a very unitary, centralised party, ill-suited to regionalism and regional decision-making," says Mr Praful Bidwai, a political columnist. "It is designed entirely to replace the Congress party as part of a national two-party political system."

The BJP is thus pitched directly against this apparent trend of regionalisation. But it believes Indians will tire of weak coalitions of caste and regional parties at the centre in favour of strong, stable, central governance. Many regional parties, its leaders believe, will evaporate. "The process of synthesis has already started in Indian politics," says Mr Singh.

Pragmatism, however, has induced the party to forge some alliances with smaller regional parties, in Maharashtra and Punjab state, and with the low-caste Bahujan Samaj party in Uttar Pradesh. If the BJP does come to govern after the next elections, it will almost certainly have to do so with some support from regional groups.

Whether the BJP can govern alone, however, will remain in question. Many believe that assuming power with the help of allies after tha next elections might help mute some of the party's more aggressively pro-Hindu tendencies and potentially divisive policies.

Should it ever capture power on its own, India might face a very stern test of exactly how inclusive the BJP's ideology of "Hindutva" would be.

PROFILE **Phoolan Devi, Bandit Queen**

The outlaw who hung up her guns for politics

Phoolan Devi, Bandit Queen turned member of parliament, looks like a middle-class Indian matron these days. Colourful saris and lipstick long ago replaced her rifle and red bandanna.

She lives with her husband in a spacious government house and owns her own home in New Delhi, worlds away from the rural village of her birth and from the inhospitable ravines of northern India where she ran with her gang.

Ms Devi, elected an MP last year, is learning to negotiate the corridors of power and represent her constituents in the state of Uttar Pradesh – in spite of being illiterate.

"I find it astonishing," she says of her metamorphosis. Born poor and low-caste as a member of the Mallah boatmen community, Ms Devi was married at 11 and rejected by her village after fleeing her abusive older husband. Kidnapped by dacoits, India's modern-day bandits, she was forced into an outlaw's life in her late teens and lived for years in the rocky ravines of Uttar Pradesh, looting villages and fleeing the police.

She says she was captured by upper-caste dacoits in 1980 after watching her gang-leader lover die by their hands. She was gang-raped, beaten for days on end, and paraded from village to village.

Next year, Ms Devi allegedly led her own gang in a massacre of 22 upper-caste Thakurs in the sleepy village of Behmai. She surrendered in 1983 after two years on the run and was jailed for 11 years on 50 murder charges, although she was never convicted.

The Bandit Queen was a living legend even before her surrender. Her story was snatched up by the international media and became the subject of a best-selling book and a controversial film, as well as her own autobiography.

The Indian press glamorised her bleak and violent life. Tall tales of her ferocity and courage abounded. Two years after her release in 1994, she was elected to parliament as the protégé of Mr Mulayam Singh Yadav, now India's defence minister and formerly chief minister of Uttar Pradesh.

Portrayed as heroine of the downtrodden or an opportunistic villain, Ms Devi is one of the most controversial figures in India.

Ms Margaret Alva, a former minister and a member of the Rajya Sabha, the upper house of parliament, says: "Phoolan is a woman of courage who will be an inspiration to those who've been used by a male-dominated society and caste-dominated local leaders. She fought back against a society that failed to give her justice or protection. Her actions were justified and I have every respect for her."


Phoolan Devi: gone is the bandanna; in are lipsticks and colourful saris Photo: Lisa Vaughan

Others, however, have questioned Ms Devi's claims to be a Robin Hood figure, taking from the rich and giving to the poor. They cite instances of her gang beating up innocent women and children in their village raids.

The precise involvement of Ms Devi in the Behmai massacre remains a mystery. Accounts differ, and she herself has made contradictory statements. "Whatever I did, I did right," she maintained in an interview with the Financial Times.

Ms Devi sees herself as a victim of circumstance with no options. "What could I have done differently? There was no other way, when the dacoits took me away and made me a dacoit. If I could do anything differently, I would not be born a girl in a poor family."

Biographers and journalists say Ms Devi is an emotional, volatile person who changes her story regularly. But the wildcat who surrendered in 1983 has mellowed after her long incarceration and relentless publicity. Friends say she lives quietly. She accepts invitations to conferences and attends parliamentary meetings. She spends time with her family and plays for hours with her sister's children – she is unable to have children of her own.

Of her hopes and dreams, she says: "That was lost in my childhood. Now my life is whatever good I can do for poor women and backward caste people."

Some people doubt her efficacy. "I see her as completely exploited, by her husband, by politicians, and without the skills to cope," says one social activist. "If you talk to her, she's really not equipped to be an MP. I don't know who the real Phoolan is today. She has always been a refugee and she still is a refugee."

Lisa Vaughan

HINDUISM • by David Housego

Politicians fan pride in religion

Nationalism has put secular values and institutions under pressure in recent years

Speakers at Hindu nationalist rallies have a much rehearsed demagogic formula for stirring the emotions of the large crowds that often gather to hear them.

They throw at them this deceptively innocent question. "Why, in a Hindu country, can we not say we are proud to be Hindus?" The crowds thunder back their defiance of India's secular constitution which forbids the use of religion for political purposes. "We are proud to be Hindus," they proclaim.

Before independence, Jawaharlal Nehru and other Congress leaders urged on their countrymen the prime importance of defining their political identity by their membership of the new nation state.

They were first and foremost Indian nationals. This took precedence over whatever other ties they might have as Hindus, Moslems, Sikhs, or Christians to particular religions; or as members of different caste groups; or to different regions or princely states.

Nehru accorded priority to the nationalist interpretation of political identity as a means of mobilising Indian public opinion against the British. It also seemed the only way of uniting a country of such size and of such immense religious, linguistic and cultural diversity.

For the first four decades of independence, the classic nationalist view of political identity went relatively unchallenged. Over the past decade, however, it has come increasingly under attack from the growing power and assertiveness of the Hindu nationalist movement, which has advanced what Professor Amartya Sen, the development economist, calls "the priority of a Hindu identity". Religion, in its eyes, is a defining element in what it means to be an Indian.

Over the long term it seems most unlikely that there will be a sustainable electoral majority in India for transforming the country into a theocratic Hindu state – a counterpart to the Islamic state in neighbouring Pakistan. But the strength of the BJP, which has emerged as the largest single party in parliament and formed the government in leading states such as Maharashtra, Gujarat and Uttar Pradesh, has left Moslems apprehensive about their future, while raising questions among Hindus about the politicisation of their religion and potential conflicts with other economic and social goals.

Hinduism is much more difficult to define than Christianity or Islam, which have clearly recognised bodies of doctrine and ritual. C.J. Fuller, who has written the most authoritative book on popular Hinduism, sees its central feature as the gesture of *namaskar*, or greeting. Hindus, in greeting or in parting from one another, raise their hands, their palms held together and their fingers pointing upward. This gesture is most commonly used in showing respect to a superior but it is also used by Hindus when approaching the image of a deity.

Fuller sees this as revealing two aspects of Hinduism which give it its unique character and strongly differentiate it from Christianity and Islam. In Hinduism, there is no clear separation between the human and the divine. The same gestures are used by ordinary individuals among themselves and also in addressing their gods and goddesses who fill this world with their presence.

Hindus live in an easy relationship with their gods, asking them to intervene in their lives, taking food to their images in the temples, garlanding them with flowers as they would a respected neighbour, and washing them before important events. They equally believe that in each human there is an aspect of the divine – a tiny bit of God – which they acknowledge in lifting their hands in the gesture of *namaskar*.

The second distinguishing feature of Hinduism is the principle of hierarchical inequality. At the centre of Hinduism is the system of castes determining at birth a person's position in the social hierarchy, on a scale from untouchable to Brahmin priest. This, as Fuller says, is not "an abstract, hidden principle of social organisation: it is a viable dimension of everyday life in rural India" and dominates a Hindu's personal identity throughout his life, and wherever he or she might be.

The influence and pervasiveness of caste has been an important force for conservatism in India. It helps to explain why India has escaped the revolutions and social upheavals that have unhinged other newly-independent countries. It has also been a negative force for development, particularly in education, where the Brahmin, educated elite, which has dominated government since independence, has turned a partial blind eye towards the country's high levels of illiteracy and lack of primary education in areas of deepest poverty.

The uglier face of Hindu revivalism: zealots storm the Babri Masjid mosque in December 1992 Photo: Popperfoto/AFP

A visitor to India walking into a temple in a large city is seeing popular Hinduism in practice. Hindus believe in the existence of a multitude of gods; that there can be different manifestations of the same god; and that all reflect the universal. Hindus see these gods and godesses as powerful forces in their lives, mostly benign but sometimes evil. They pray to them, seek their support in critical moments, show their gratitude through offerings, and sometimes seek to appease them through sacrifices.

Scholars used to distinguish this popular Hinduism from Sanskritic Hinduism as handed down in the sacred texts and practiced by Brahmin priests. The central features of this were seen to be the worship of the great deities, such as Vishnu and Shiva, the pan-Hindu sacredness of the rivers, the importance of the main pilgrimage centres, the sanctity of the cow, and the pre-eminent role of the Brahmins.

But Fuller, together with other recent scholars, questions the validity of this distinction and sees Hinduism as taking different forms in different parts of the country and in different periods.

Hinduism developed as a political movement only recently. A Hindu reformist movement grew up in the late 19th century in parallel with the emerging nationalist movement and the strengthening of separate Hindu and Moslem political identities. As the Khalifa movement gathered force in the early years of this century – encouraging Moslems worldwide to focus on their common religious identity – so Hindu communalism developed in India.

The Rashtriya Swayamsevak Sangh (RSS), the mother movement to the BJP, was founded in the 1920s to promote Hindu consciousness and identity, and the concept of the Hindu nation. Vinayak Sarkar, who invented the concept of Hindutva (the Hindu nation) at that time, described it as more comprehensive than Hinduism. He said it comprehended the "cultural, linguistic, social and political aspects" of Hinduism as well.

Hindu self-assertiveness grew with Partition in 1947 but in the early decades of independence it remained a minority movement. It gathered strength again in the 1980s, fanned by the short-term political exploitation of the issue both by Mrs Indira Gandhi as prime minister and by her son Rajiv.

In an effort to rebuild the waning popularity of the Congress party, they projected their governments as defenders of the Hindu nation in danger against Sikh separatism in the Punjab and, later, Moslem separatism in Kashmir. In 1989 Rajiv Gandhi, drawing on the themes of his Hindu nationalist opponents, opened his campaign by declaring that he would re-establish Ram Rajya, the mythical utopian kingdom over which Ram, both king and god, is said to have ruled.

In face of this usurpation of their clothes, the Hindu nationalist movement intensified its own campaigns. From claiming that the Moslem shrine at Ayodhya in northern India was in reality a Hindu temple, the VHP and other extremist Hindu movements took up the themes of shifting the shrine and then of rebuilding the temple.

The stronghold of the Hindu nationalist movement still remains fairly localised in terms of caste and of regions. Its centre is the trading and small business caste of northern India. Its strength has since grown for several reasons: Hindu fears at Moslem self-assertiveness; growing doubts over the ability of Congress to promote national causes; and the fears of the upper castes of a loss of power and prestige to aggressive lower caste groups who are seizing power in both local and national politics.

Fuller maintains that over the longer term the Hindu fundamentalists do not have the support to obtain an electoral majority in India. He says: "Hindus, whatever the chauvinists among them like to believe, belong to a religiously plural society."

He adds that they are not aggressive about their religion: "They worship their gods and goddesses, offer sacrifices to them; celebrate festivals for them, sing devotional hymns to them, go on pilgrimages to their sacred sites and ask them for help in times of trouble, much as they have done in the past, largely unaffected by fundamentalist influences."

● *The author was FT South Asia Correspondent in Delhi between 1988-92. He now runs a business in Delhi*

PROFILE Chandrababu Naidu, chief minister of Andhra Pradesh

One man and his laptop test the pulse of a state

When Mr Bill Gates, chairman of Microsoft, visited India earlier this year, Mr Chandrababu Naidu, the Andhra Pradesh chief minister, flew to New Delhi specially to meet him.

At a US Embassy cocktail party, Mr Naidu took the software guru aside, opened his laptop computer, and spent half an hour demonstrating the "chief minister's information system" he has devised to keep his finger on state affairs.

"He [Mr Gates] was very happy with it," recalls the 47-year-old Mr Naidu, demonstrating the same system projected on a screen in his dimmed Hyderabad office.

Click through a series of windows and up pops data on virtually any facet of his state: the level of coal stocks at each power station; the rate of maths passes at a particular school; the daily depths of Andhra's water reservoirs.

Mr Naidu says he begins every day at his laptop, clicking through information which officials update daily, or responding to e-mails culled from the Andhra website.

"Another year and I can make the system perfect," he says. "We will respond to investment applications on the internet, I will send reports on the economy to the World Bank by internet."

Web sites, laptops, e-mail accessibility and electronic government are not the routine stuff of Indian politicians, who more commonly evoke a faint air of the 1950s.

Some critics see Mr Naidu's messianic faith in information technology as gimmickry. But India's youngest chief minister is apparently determined to dispense with the old ways of Indian politics. And his sudden political ascent, from little-known state politician two years ago to national figure, indicates some tough political savvy behind the "techie" image.

Pressing the flesh: Chandrababu Naidu (in white) meets industrialists Photo: Marcus Oleniuk

The son of a farmer in Naravaripally, Mr Naidu became active in politics while studying economics at Tirupati University, eventually dropping out of a Ph.D course to take it up full time. By the mid-1980s he had risen to become general secretary of the Telugu Desam party, a regional grouping forged from combined sentiments of regional "pride" and disaffection with the then dominant Congress party by Mr NT Rama Rao, a charismatic former Telugu movie star.

For several years Mr Naidu was Mr Rao's chief political troubleshooter and organiser. That is, until soon after the TDP's victory in the 1994 state elections on a sweeping populist platform. Mr Rao promised virtually free power to farmers, heavily subsidised rice at Rs2 a kilo, and a ban on alcohol sales to meet demands of a vocal women's lobby. The resulting loss of alcohol excise and higher subsidies plunged the impoverished state into bankruptcy.

"The party had to be given an altogether new direction," says Mr Naidu. "All these welfare schemes were eating into development and capital spending." So, in August 1995, Mr Naidu effected a palace coup, ousting Mr Rao and taking most of the party with him. "After I became chief minister, I decided to reverse all our policies, to balance welfare and development," he says.

Mr Naidu then embarked on the awkward task of breaking Mr Rao's popular promises. He raised rice prices. He reintroduced alcohol sales. He is now busy trying to persuade farmers that the quality of their power supplies will improve only if they pay for them. And he began to look around for ways of financing the redevelopment of his state.

All of which caught the eye of the World Bank. Impressed by Mr Naidu's attempts to reform his government, the bank began discussions on a package of loans worth $400m to $500m aimed at restructuring government finances, improving revenues and redirecting spending. It will be the bank's first foray into state-level lending in India.

Mr Naidu has three years before the next state elections, and he is betting on the fact that his reforms will produce sufficient results by then for his party to win re-election.

Moreover, Mr Naidu seems bent on affecting a wholesale change of attitude in the state. In tandem with his top-down reforms, he has begun a series of volunteer civic work schemes. Villagers are exhorted to get together and build roads and bridges, and officials from all levels are dispatched to the countryside to join in. Mr Naidu himself occasionally wields a shovel.

"If you set a trend, if you make a psychological change, then things will move," he says. "If people taste one result, they will follow."

He says he draws the model for such schemes from eastern Asia. Mr Naidu is much taken by the examples of Singapore, South Korea and Malaysia, where he counts the prime minister, Dr Mahathir Mohamad, among his main political influences. In a way, Mr Naidu is seeking to propagate a sort of south Indian version of "Asian values". "People are always asking what the government will do for them. I am asking, what will you do for the community, for the country?"

Mr Naidu has his doubters. "This is a poor, rural and quite backward state," says one Hyderabad political journalist. "And these are ambitious schemes. It might work in a more advanced state, like Maharashtra – but I have my doubts here."

But there are also those who believe his plans for Andhra might prove only a political stepping stone. His TDP is a constituent of the United Front government in Delhi, and Mr Naidu is its political convener. During the UF's scramble in April to elect a new leader, after Congress demanded the ouster of Mr HD Deve Gowda as a condition of its continued political support, Mr Naidu's colleagues asked if he would like to become prime minister. He refused, saying he had too much to achieve in Andhra.

Ask him if he might one day become prime minister, however, and Mr Naidu will allow himself a smile.

Mark Nicholson

THE MILITARY • by Quentin Peel

Traditions die hard in the army

Splendours from the past cannot hide inadequacies in equipping a fighting force

Pomp and reality: The army makes a colourful sight on Republic Day, but in Kashmir (right) its presence is heavy in personnel but lightweight in modern equipment

Photos: Marcus Oleniuk

On Sundays, the gentlemen cadets of the Indian Military Academy in Dehra Dun are allowed to cycle into town for the afternoon.

In spite of the beat on the dusty streets, and the bectic, houking confusion of lorries, buses, buffaloes, cars, carts and wandering cows, the young men pedal their way in crisp white shirts and sober ties on their ancient bicycles, apparently oblivious of their surroundings.

The earnest cadets of the red-brick, white-colonnaded IMA, founded in the foothills of tha Himalayas in 1932 and modellad on the British Royal Military Academy at Sandhurst, clearly see themselves as something of a class apart.

That is one good reason why they slog through the drill and discipline and gruelling physical exercise of the course to become an indian army officer.

"People look up to you," says Gentleman Cadet S.S. Boparae. "It's the tradition. We are slightly different from the people outside. These traditions belp us to have more discipline."

Tradition there certainly is, from the parade ground to the officers' mess, harking back to the pre-independence era when India was still the jewel of the British empire, and ths Indian army was its greatest pride.

"It's all good old-fashioned stuff at the IMA," according to one regular British visitor. "If it doesn't move, they say, then paint it."

Regimental colours recalling remote colonial battles are lovingly preserved in the academy museum, alongside the original document of surrender signed by the Japanese at the end of the second world war in Singapore.

The cadets still wear striped blazers, while their British counterparts long ago switched to plain dark blue. And there is still a rule in the mess that politics, religion and sex are not discussed.

"You don't talk politics and you don't talk women," says Gen Ashok Mehta, former commanding officer of the indian army in Sri Lanka. "If yon name a woman in the mess, yon have to buy a round of drinks."

Today, the Indian armed forces, and the army in particular, represent an extraordinary bridge from the past to the present. They have maintained many of the old regimantal traditions and ceremonies invented by their former British officers and NCOs. At the same time, they symbolise the national pride of a united, independent India.

"What used to be the British Indian army is still more British than the British army," says Gen Ashok Mehta, who joined the 5th Gurkhas in 1957 and retired in 1991. "The British army has dispensed with a lot of what you might call unproductive traditions, bnt we have hung onto them. in our case, It's like the English language: it's a bit like a glna which binds us together."

It is the same image which many military men also use to describe the armed forces' role in India: as a glue which binds the whola country together. Their role in the constitution is "to act as a force within Indian society for national unity and integration", and they take it very seriously.

The other side of the coin is that the armed forces see themselves as scrupulously apolitical, npholding old-fashioned traditions of honesty and decency, while the worlds of politics and the civilian bureaucracy in India have becoms riddled with corruption.

"In the army you are accountable. You are not here just for the money," according to Gentleman Cadet Ahmed Ahuja at the IMA. "You have got a mission and responsibility. We are brought up to hate corruption. It makes us angry."

Air Commodore Jasjit Singh, director of the Institute of Defence Studies in New Delhi, believes the tradition is more profound.

"The thing goes back deep into Indian history, to somewhere where this caste system evolved," be says. Soldiers were drawn from the Kshatrya, the warrior class. "The fighting classes had a certain insulation from the rest of society," he says.

"Society depended on them for security, and in turn asked no questions. The soldier belonged to a professional fighting class; it was not his business to say how the state was being run.

"The great credit of the British was that, consciosly or unconsciously, they understood this process. When they brought the good officer concept, it suited the tradition perfectly."

In spite of their pride and traditions, or perbaps because of them, the Indian armed forces are going through something of a crisis of confidence.

Part of the problem is simply a matter of cash, but in reality it goes deeper. In the 50 years since independence, and in spite of the end of the 'cold war', the transformation in international relations, and in military techniques and bardware, the Indian armed forces remain virtually unreformed. They are far too large and underequipped, according to most defence analysts.

"It's a 1960s army. It's a lovely army. They still have all that beautiful regimental tradition," according to one British observer. "But it is 10 times the size of the British army, and its budget is one qnarter of the British defence bndget."

Gen Mehta adds: "It is at least seven to 10 divisions too big. You could easily cut 100,000 to 150,000 men. But we are reluctant to change. How can we keep an ill-equipped, or at least partially-equipped, armed forces?"

The equipment, such as it is, is overwbelmingly of Soviet origin, including the main T-72 battle tanks, MiG fighter aircraft, and guns. That means it is usually rugged and serviceable, but these days often lacking spare parts and support services.

The government continues to buy Russian equipment – most recently ordering 40 Sukhoi-30 jet fighters – but the military would prefer to shop around. Whatever happens, the next battle tank is supposed to be home-grown, the Indian-designed Arjun, coming into service around 2002. A new light combat aircraft is also being designed from scratch.

The real complaint of the military is that it is excluded from the decision-making process. "The chief of the army staff is not part of the decision-making structure, even on defence matters," says Air Commodore Singh.

"The ministry of defence should be an integrated ministry of civilians and military people. It is not. Having civilians in cbarge means delays in decision-making. It results in wrong decisions. At one level, the military is not responsible for defence decisions. At another level, it cannot be qnestioned by civilians."

Two other criticisms are frequently voiced. One is that tbe armed forces are excessively involved in internal security operations – in Kashmir, in tbe north-east, and increasingly in actions such as riot control in urban areas. The result is a feared increase in tbe politicisation of tbe military as it comes into contact witb regional politicians and bureaucrats.

The other main criticism is tbat India lacks any coherent overall defence strategy, and any institntional structure to design one. It sees two threats on its borders – China and Pakistan – and bas strung ont buge numbers of troops to oppose them.

There are growing calls for a joint military-civilian body along the lines of a US National Security Council to refine and develop strategic thinking.

That body would also decide, it is argued, whether India should produce and deploy nuclear weapons. The consensus in the armed forces and public opinion appears to be overwhelmingly in favour, in spite of tbe international opprobrium it might bring.

"What are we afraid of?" asks Gen Mehta. "I believe tbat the deterrence equilibrium would improve. It would probably bring China, India and Pakistan into greater strategic balance. Individual countries would feel more secure. That is the view of 99 per cent of the armed forces."

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of a state

PRIVATE EDUCATION • by Alexander Nicoll

Doon boys are in a class of their own

India's most privileged pupils are brought down to earth by an austere regime

The crack of a cricket bat upon ball, a tree-lined field on a sunny afternoon, the bell calling languid boys to tea ... some of the golden memories of the British public schoolboy. But the hills in the distance are the Himalayas, and the boys are all Indian. This is the Dooo School, India's most élite boarding establishment.

The rich and powerful have beeo seoding their sons to Doon since it was founded in 1935 on the principle of producing Indian leaders who would transcend the country's prevalent divisions of caste and religion.

Independence was then still 12 years away, but Mr Arthur Foot, imported from Eton to be the first headmaster, declared that Doon's boys "must be those who are going to lead the nation in all departments of life. They must be representatives of all communities and all professions".

For leaders in the making, life is as austere today at Doon as it was 60 years ago.

Five hundred boys are divided into seven houses, where they sleep in dormitories on hard beds. In the noisy dining hall, they take turns to serve food to each other, and complain bitterly about its quality.

Doon forbids boys to bring money and personal possessions to school, and issues the compulsory blue and grey uniforms that include ehort trousers for all bnt senior pupils aged 17 or 18.

Boys are allowed pocket money of just Rs500 per term, to be spent in the school tuck shop or in fortnightly outings into the nondescript town of Dehra Dun. They are in trouble if they are canght with "home dough" – money smuggled from their parents' houses.

Like every other institution in India, however, Doon is facing powerful new pressures that result from the liberalisation of the economy. Parents are no longer typically the executives of Calcutta-based tea estates and the other traditional professions of imperial India. Many of them are budding captains of industry in wealthy family businesses in Delhi or Bombay. They want their sons to succeed, which means passing exams with high marks.

Some parents do not see why their sons should have to do without the comforts of home – where they have servants, satellite television, computers, music systems and mobile telephones – particularly since annual fees are more than Rs60,000 – beyond the reach of all but the most privileged.

"We are supposed to be egalitarian, but up pops a Rolex watch, and there flashes a Reebok shoe. We want boys to be individuals but we don't like people using their wealth and power to upset the balance," says Mr John Mason, the headmaster.

Mr Mason has to balance the new competitiveness of India's pushy commercial society with the conservatism of the board of governors and of an Old Boys' Society that includes some of the most influential men in India.

Alumni do, however, include many leaders of the new India. Among them are: Mr R.C. Bhargava, who heads Maruti, the largest carmaker; the Nirule brothers, who head a leading fast food chain; Mr Aroon Purie, founder and editor of the magazine India Today; Mr Prannoy Roy, a top news broadcaster; Mr Swaminathan Aiyar, former editor of the Economic Times, the largest selling leading business newspaper; Mr Parvinder Singh, head of Ranbaxy, a leading drug company; other top industrialists such as Mr Lalit Thapar, Mr Dhruv Sawhney and Mr Rajan Nanda.

"The whole country is going through socio-economic change," says Mr Mason, who came to Doon in 1996 after spells as head of schools in Calcutta and Dubai. "We see restlessness about achievement, without regard to effort – a very sharp sense of deserving and a tendency to believe that the end is what is important."

Doon, however, laye emphasis on the means to the end. It asks boys to take responsibility for their lives, and this is best seen in the tradition of "mid-terms" – unsupervised small-gronp expeditions into the nearby monntains where life-and-death situations can arise. "Cheating on the mid-term", which means taking short cuts from an agreed route, is a punishable offence.

"My very first mid-term, I climbed a 10,000-ft hill," says Mr Suman Dnbey, who heads Dow Jones in India and was formerly a newspaper and magazine editor and a close adviser to the late Mr Rajiv Gandhi, the Doon old boy who became prime minister.

Such experiences and the austere lifestyle breed close life-long friendships among "Doscos" – the term for Doon School boys. "Though there were very rich kids, there was a great emphasis on equality and community," says Mr Dubey.

Not all old boys have fond memories, however. "It was a lot like *Lord of the Flies*," says one, likening what he describes as ritual abuse and sexual exploitation of younger pupils by their seniors to William Golding's novel of boys' inhumanity to boys.

Another "Dosco" writes on the school's Internet home page, maintained by former pupils, that "the fund of stories and incidents, all memorable, overshadows the unhappy moments that one had away from family, at the mercy of some heartless 'ruffians', fagging for some ruddy, now forgotten senior".

Mr Mason says that fagging – the performance of menial tasks by junior boys for seniors – and corporal punishment are banned. "Prefects are severely enjoined not to hit boys." But he admits that the school is concerned about individual cases of bullying and that they are difficult to handle because of "a kind of Masonic, cabalistic silence in which everyone is supposed to participate". Nevertheless, he says: "If somebody gets beaten, it's all over the school by the next morning and the headmaster announces it."

Mr Mason's primary objective is to improve teaching standards, shifting the emphasis away from sports and towards academic prowess. Responding to criticisms from old boys, including Mr Vikram Seth, the author whose books include *A Suitable Boy*, Mr Mason says: "I'm suggesting that we should play a lot less than we do at present. Academic performance should be given more honour and prestige."

Parents have frequently demanded higher standards of teaching – which in India has never been a prestigious profession, often relying on learning by rote.

Mr Mason has set up a teacher centre within the school to find ways to raise quality. The aim is not specifically to improve exam results, Mr Mason says, but to use time spent in the classroem more effectively. "I believe that in India too much time is wasted in lecturing to classes."

For incoming pupils at the Doon School, there is even some lightening of the spartan lifestyle. They arrived last term to find that their beds had new coir mattresses. Mr Mason believes that the "air of austerity everywhere needs to be reviewed". Meanwhile, the remainder of the school continues to sleep on beds that the headmaster says "are the same as you find in the villages of the humblest people in the country".

PRIMARY EDUCATION • by Mark Nicholson

The dusty road to learning in Uttar Pradesh's villages

'We don't have any teaching stuff because there's no proper building'

The children at Bajitpur primary school sit in the dust under a withering May sun at the side of the busy Delhi-Aligarh highway. Laden trucks career past, blaring their terrifying air-horns.

Some of the six-to-11-year-olds find shade under a banyan tree. One small class is lucky enough to sit within a small open-sided *pyaoo*, a little brick shelter meant for parched travellers. A hand-pump stands nearby.

Five teachers sit in the shade of the *pyaoo* on the only chairs to be seen, chatting, whiling away the five morning hours of classes before going on to their other jobs.

Left largely to their own devices, a few of the children dip twigs into pots of watered chalk and copy Hindi words and phrases on little wooden hand-tablets, like the slates used hy past generations of English schoolchildren. Others wander off to play with the pump.

There are no desks, no chairs for the children, no blackboards – no hright alphabet wallhangings, because there are no walls. Only a few children have furled, pamphlet "textbooks".

"We don't have any teaching stuff because there's no proper building, so where would we keep it?" says Mr Murali Lall, one of the five teachers, and a part-time farmer.

That the school's teachers are there may be explained by the fact that they earn Rs4,500 a month. More surprising is that five dozen of the school's "enrolment" of 160 children bother.

The school was established two years ago, and its teachers say land has been allocated to put up a schoolhouse. Mr Sunder Singh, a teacher who is also an electrician, explains: "Government work takes its time. There is some paperwork."

Bajitpur is a striking, though not unique, example of the impoverishment of primary education in Uttar Pradesh. India's higgest state, with a population of 140m, it is one of the poorest and most edncationally backward. It is emblematic of the state's educational deficiencies, and indicative of those of many Indian states, particnlarly in the north.

By any tally, Uttar Pradesh's primary education system is a failure. Its literacy rates are 56 per cent for males (compared with 64 per cent for all India) and just 25 per cent for females (compared with 39 per cent).

Although the state claims 90 per cent of children are enrolled in schools, anecdotal evidence and recent studies suggests dropout rates are 50 per cent or more. At best, one-third of primary enrolled children go on to "npper primary" schools for 11-to-14-year-olds.

Studies also suggest that teacher absenteeism is endemic. Perhaps two-thirds of teachers fail to attend classes regularly, according to recent research by Mr Jean Drèze, of the Delhi School of Economics, and Mr Haris Gazdar, of the London School of Economics.

Finding that only half of the state's literate males had completed the cycle of eight years primary and middle schooling, and just 40 per cent of literate girls – that is 10 per cent of all girls – the economists conclnded that "many children in Uttar Pradesh, if they are literate at all, acquire this skill on the basis of a fleeting passage through the education system".

The blame, they said, lay essentially in pnblic policy "inertia"; the poor reach and functioning of state education services; unconcerned or demoralised teachers and an absence of effective systems of accountability. They also cite caste factors, the political bias towards higher education, and social practices which mean that proportionately fewer girls receive tuition in Uttar Pradesh than almost anywhere in the world.

Basic education in India is constitutionally a state responsibility, but nowhere is it yet mandatory. It is a mammoth problem which India's giant state has started modestly to address. In 1993 the state launched an attempt to bring universal primary education to 12 of its 63 districts by 2000, using a $168m IDA credit from the World Bank and $25m of its own funds.

The project aims to build "institutional capacity", put up new schools and recruit and train teachers. For these 12 districts alone that means hiring 15,800 new teachers, adding 13,000 classrooms and building 2,200 schools. A primary school costs about $7,000 to build, and about as much each year to staff and maintain.

Bajitpur school Pradesh has no schoolhouse. Pupils sit in the dust for their lessons · Photo: Mark Nicholson

A few kilometres down the road from Bajitpur, closer to Alighar, is fruit of the project, the year-old Nagla Natta primary school. It boasts three brick and plaster rooms, three teachers – two of whom are present – and about 60 children, of an enrolment of 114. There is a teachers' desk and a couple of register books. There are blackboards, but no chalk. There are no other teaching aids and no furniture. The children sit cross-legged in rows on long strips of matting. Some of the older children have clipboards, pencils and paper.

The children sit attentively. "We have heen for training twice under the programme," says Mr Devi Ram, who has taught for 23 of his 50 years and has no other job.

"We are working hard, and that is why there has been a fall in the dropout rate. Our school is good. We are getting some facilities from the government. We were able to whitewash the walls recently. It is definitely getting better."

Further down tha same road comes a still greater contrast. The Dr Sohan Singh Public School is a small fee-paying school run by 29-year-old Mr Mukesh Kumar. His parents were both teachers, owned land by the Delhi-Aligarh road, and decided to set up a school. It is also a year old and has 133 students, each of whose parents pay Rs30 a month.

Next to the three-room schoolhouse, bamboo scaffolding surrounds the brick shell of a new classroom. "We hope to add a new classroom every year," says Mr Kumar, "so there will be no dropouts from our school."

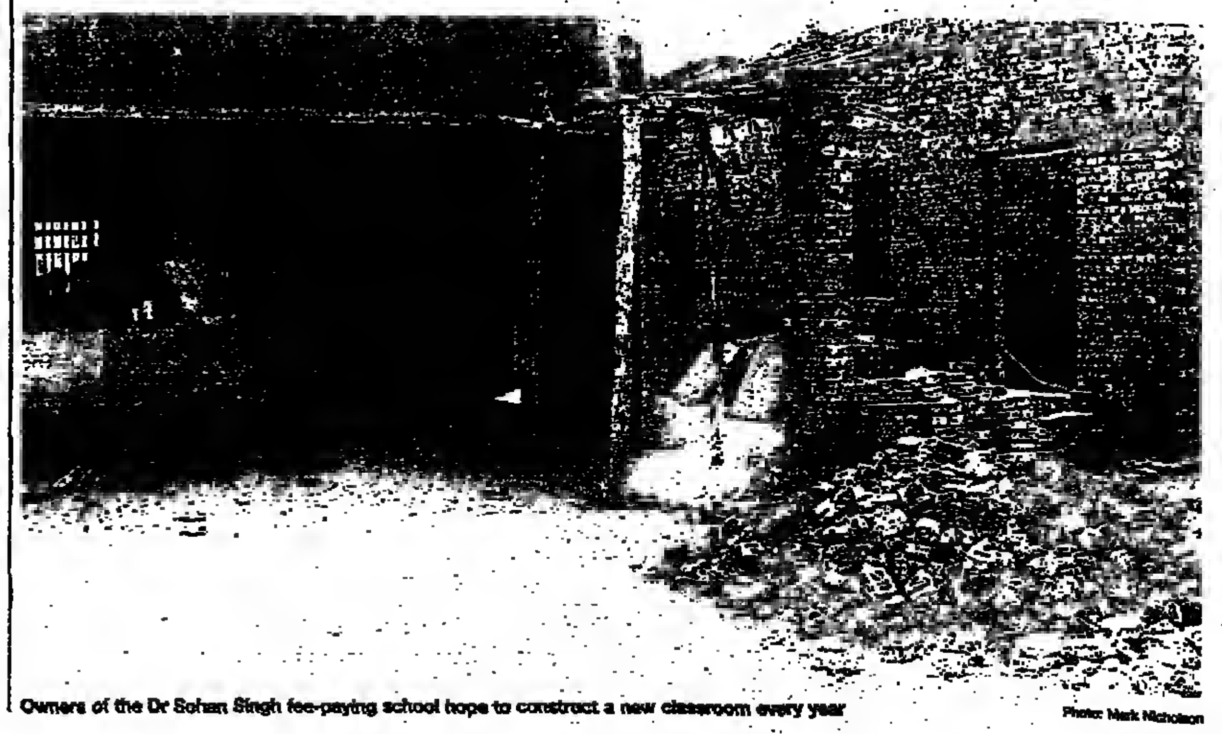
Mr Kumar's wife and sister complete the teaching rota. Picture charts adorn the walls. The children, many in maroon and white uniforms, have pens, satchels and exercise books. They are clearly wealthier, and higher caste, than their peers down the road.

Only 3 per cent of Uttar Pradesh's primary schools are private. But Mr Kumar believes the proportion will grow as wealthier parents turn in despair from the decayed public system.

"There's heen some improvement in the past two or three years, but otherwise pnblic education is in bad shape," he says. "The kind of money being spent is insufficient. Most of the teachers in primary schools are local people, so they're usually busy with other work – teaching is a resting activity for them.

"But money is not the real problem. The teachers get good salaries, but right from the beginning most of them don't take their work seriously. The village communities have to start looking after the schools, and education officials should do surprise checks. But they are only worried about the numbers at school, not the quality of teaching.

"It's very disappointing to see children of 10 and 11 who don't know basic mathematics. The basics aren't being done. And that's the worry. The future of this country lies in its primary education."



Owners of the Dr Sohan Singh fee-paying school hope to construct a new classroom every year · Photo: Mark Nicholson

THE CIVIL SERVICE • by T.C.A. Srinivasa-Raghavan

Corrosion spoils the 'steel frame'

Civil servants are in thrall to a system that can stifle personal integrity

Last year, several members of India's all-powerful senior civil service, the Indian Administrative Service (IAS), decided to hold a secret ballot. The purpose was to decide who was the most corrupt official in India's largest state of Uttar Pradesh.

The vote underlined what many believe to be the main weakness of the IAS – increasing corruption. But it also indicated what some see as the service's main strength: its ability to discipline its members.

"I know things have gone to the dogs and the IAS has suffered a loss of authority and credibility," says a long-retired civil servant who joined the service just after independence. "But the system is basically resilient and, with some firmness, it will cure itself."

The IAS, with a current strength of more than 5,000, was originally the Indian Civil Service (ICS), the civilian body consisting of a handful of Britons who, along with the British army, ran India from the mid-19th century.

IAS members are recruited through an annual competitive examination. At the point of entry, probationers are generally aged 23 to 25 and can thus look forward to around 33 to 35 years of government service, usually in key positions at executive or policy-making levels.

Their first few years are spent in the districts, where they are in charge of law and order and have magisterial duties as well. Then, as they progress up the ladder, their duties become more policy-oriented.

"We were taught to believe that we were the rulers, the government," says an officer who entered the service in 1948. "We could never be wrong."

IAS officers are routinely transferred from ministry to ministry as well as between central and state governments. But this practice is increasingly being questioned. "We were told that if we were sufficiently good generalists we could master any profession, do anything," saye a recently-retired official. "Now we are realising that specialisation is critical."

After an initial spell at staff college, officers have almost no training programmes or career development schemes. There is no attempt to steer them into jobs that match their abilities. Everything depends on being the right man in the right place and developing good relations with ministers.

Such a system naturally breeds venality. Mr T. N. Seshan, a fierce opponent of corruption, who was himself an IAS officer before becoming India's chief election commissioner, once called his former colleagues "call-girls".

Typical abuses of power include forming a co-operative housing society and granting it land in a good location at one-tenth of the market price, or ensuring that an officer's children get scholarships to universities abroad. But these are now regarded as smaller violations, and are so numerous that they are accepted as "normal" perks of office.

One IAS officer says outright taking of bribes is not the issue. "The real problem is that you must also have the ability to give impartial advice to the government and not tailor it to the needs of the political masters."

To the majority of the IAS officers, this is the key issue. The predominant feeling is of helplessness in the face of orders from a minister who can make or break a career by ensuring indifferent assessments in an officer's confidential record.

"The big differences between here and Britain," saya an officer who has served on two administrative reform tribunals, "is that [in the UK] the minister cannot order your transfer or punish you otherwise. That and disciplinary action are both left to the civil service itself. This provides strength and enables the civil service to stand up to politicians."

The decline in standards of political conduct has brought a parallel decline in the standards of civil servants. Few want to annoy the politicians, who can create havoc in officers' personal lives and careers. One IAS officer in Bihar was beaten up by a legislator from the ruling party for refusing to ensure that the legislator's nephew, who had failed the entrance test, was given a place in a government-run medical college.

The result is that the IAS has evolved from an instrument of impartial governance into an extension of the party in government. For those who fall in line, the rewards can be handsome.

"Don't begrudge us these perks," says a middle-level officer who quit the IAS for an international development bank. "My salary after tax wasn't enough to pay the children's school fees."

Low pay, vulnerability to political caprice and corruption have dented the self-confidence of a corps that was, until recently, ready to take on anything.

"I agree the so-called steel frame has become a bit rusty," says a top-ranking official in New Delhi, "But the rust is confined to only some portions. By and large, the structure is still strong."

And in answer to suggestions for reform or even abolition of the IAS, a former home secretary says: "You will always need a bureaucracy, never mind what you call it."

● *The author is associate editor of Business Standard newspaper.*

THE DELHI ELITE • by Khushwant Singh

Through the cocktail glass

The diplomatic party can help secure entry into the charmed circle

Going places: membership of the Gymkhana club is subject to strict vetting Photo: Marcus Cieniuk

Before the British built New Delhi, the élite of the city lived in mansions enclosed within the walls of the Mughal City, Shajahanabad. They rode out on caparisoned elephants, or on horses with umbrella bearers running behind them, or in palanquins. For entertainment they went to the courtesans' quarters for an evening of singing and dancing.

All that changed when the new city began to go up around Raisina hill soon after the first world war. For themselves, the Sahibs built spacious bungalows laid out between acres of lawns and flowerbeds. They had their "whites only" clubs, where they drank and danced away their evenings. On winter weekends, members of the Hunt Club attired in black and scarlet cantered out to the countryside followed by packs of beagles. If no foxes could be found, they ran some miserable jackal to death and celebrated their succese over glasses of sherry.

Things began to change during the second world war. There was a large influx of American GIs, who did not know the subtle rules of apartheid. A lot of young Brits also refused to join the exclusively white clubs, and preferred befriending Indians. By the time the war was over, the social pattern of the capital had undergone a sea-change. A new caste hierarchy based on official status and money emerged, to displace the old aristocracy and titled gentry.

Division of the country on independence saw the élite of the city depart for Pakistan, and be replaced by Punjabi Hindus and Sikhs. The culture of Delhi, based on Persian and Urdu, lost out to rustic Punjabi and Hindi.

There are a few simple indicators to personal status in New Delhi society. Since a sizeable proportion of the population are government employees, their importance is determined by their seniority. Ministers are a class above the rest. All are provided with armed security personnel. They have red lights twinkling on the roofs of their Ambassador cars and drive in convoys led by one with a siren, screaming to clear the way.

Other peoples' status can be ascertained by the clubs they belong to. On top are the Delhi Golf Club and the Gymkhana – both remnants of the British Raj. One post-independence institution is the India International Centre. It is the capital's premier cultural centre and organises seminars, lectures, music and dance recitals. It has a well-equipped library and a couple of restaurants.

Membership of all three clubs is severely restricted. An applicant may have to wait for 10 years or more for his turn to be considered.

The Gymkhana continues the British tradition of inviting candidates and their wives to meet committee members over cocktails. Anyone not dressed in a coat and tie, or unable to speak English, is automatically ruled out. A teetotaller is not looked upon with favour. Nor is anyone who takes more than a couple of drinks. And there is always the danger of being blackballed by a committee member who does not like your "smell" or your wife's looks. Members of club committees enjoy enormous prestige. Annual elections of the Golf Club and Gymkhana are fiercely contested. Months ahead of election day, aspirants throw cocktail parties to gain favour.

Elephants, horses and palanquins have yielded place to automobiles. In this matter, modestly paid bureaucrats are at great disadvantage. They have to do with Indian-made Marutis, Ambassadors and Fiats. The more affluent owners or directors of private companies ride in imported cars, mostly Japanese or German. A Mercedes-Benz is an important status symbol. Many can now be seen on Delhi's roads.

Civil servants make up for having cheaper vehicles by awarding themselves important number plates. DLH1 is usually the prerogative of Delhi's Lieutenant Governor. Other smaller numbers are likewise taken over by senior officials, who are more than happy to hand out double-digit numbers to businessmen.

One has to be seen at diplomatic cocktail receptions to be accepted as a Brahmin. Fortunately, it is not too difficult to gain entry into this charmed circle. All one has to do is sign the visitors' book kept in embassy lobbies and the chances of being invited to national day celebrations brighten.

If you and your spouse have any social graces you will be picked up by ambassadors, counsellors or press attachés and invited to their homes. They are as eager to show off their Indian friends as the Indians are to be seen mixing with them. Indians do not have to return their hospitality – diplomats get their liquor duty-free, is the thinking. For Indians, the price of scotch is prohibitive and often what they get from smugglers is spurious whisky.

It is at diplomatic receptions that Indians get to know about each others' social status. Indian women know the subtle art of finding out whether another is worth cultivating. After they have exchanged "Hullo-jis", the old hand will move quickly to determine where the newcomer lives. Since most of New Delhi's residential colonies are based on official standing, the address will reveal whether you are a minister, secretary, additional secretary, special secretary, joint secretary, deputy secretary or merely an under-secretary.

Mrs Lall will reply "at the moment we are in Sarojini Nagar, but we are due to mova into our regular accommodation on Pandara Road". Translated from Delhi's socialese this means: "My husband is a joint-secretary but is yet to be allotted the house of his rank." If the address is not of a government colony, one can assume the other is in some kind of business. Here, the address will tell you if the person is rich, and worthy of politeness, or to be brushed aside as of no consequence.

Delhi's new caste system determines its citizens' careers from their birth to death. Upper caste children go to upper caste schools and colleges and live in upper class residential localities, mix with their own kind, and when they are sick, are treated in their exclusive hospitals. Their deaths are reported in their own newspapers.

The hoi-polloi "go to their heavenly abode" in the obituary columns of the most widely read paper, *Hindustan Times*, and are cremated in one of the many open-air *ghats* on piles of logs.

The élite have their deaths reported in a paper with a small Delhi circulation, The Statesman. And they are reduced to ashes in Delhi's one and only electric crematorium.

● *The author is one of India's best known writers and author of several novels and histories*

MEDIA • by Vinod Mehta

Striking fear in political hearts

In spite of some errors investigative journalism enjoys credibility

How, in any free society, do you determine whether the press is doing a decent job? Doubtless media pundits will come up with various criteria, all of them wise and valid.

The pundits may not give the Indian press a clean bill of health, but they will have to concede that after 50 years of independence it has one big achievement to its credit – it has managed to strike fear in the heart of politicians.

Recently, I met a middle-rank Congress politician with a legendary reputation for wheeler-dealing and financial corruption. He was not a happy man.

"These days, when I go to the toilet I look behind the flush to see if some journalist is waiting to trap me." (This is expressed much more colourfully in Hindi.) There was, he said, no future in India for a professional politician engaged in making "a little money on the side" while toiling for the masses.

For at least three decades after independence those who ruled India managed to manipulate the press. It was generally assumed that these gentlemen – and a few ladies – were of unimpeachable integrity and dedicated to serving the people. As a result, most of their shenanigans went unreported.

Mrs Indira Gandhi's brief flirtation with totalitarianism in 1975 opened a can of worms, and since then investigative journalism, concentrating largely on public men with itchy fingers, has developed and matured. It is now an essential component of the Indian press.

In spite of some egregious reporting errors, investigative journalism enjoys huge credibility with the reading public. "When a paper tells me a politician is corrupt, and the politician tells me he is innocent, my first instinct is to believe the paper," a retired army general said. He reflects the national mood.

Obviously, there are long-term dangers. Note has to be taken of the destructive mood that has taken hold of the republic – a conviction that all politicians in the country are corrupt and incompetent. This mood always existed, but was tempered by moderation and balance. Now – especially in the past two years – with many politicians having to answer charges ranging from subversion and criminal conspiracy to harbouring gangsters, and others in jail or on bail, cynicism has settled with certitude.

Two pillars of Indian democracy – the courts and the press – have played a decisive role in establishing the "anti-politician" mood in the country. They have frequently worked in tandem and worked very effectively. Not surprisingly, opinion polls show that judges and journalists are held in high esteem, while politicians are at the bottom of the ladder, just above smugglers and pimps.

Clearly, if this mood persisted the functioning of the democracy would be endangered. But, in the short term, it is not such a bad thing that politicians should look warily before they enter their bathrooms.

There was much celebration in the country when Mr I.K. Gujral was appointed prime minister. Although he had no grass roots support, his arrival was welcomed because he was seen to be "clean".

It would be wrong to believe that the press has purged the country of corrupt politicians, but it has instilled sufficient fear to make habitual offenders think twice.

Not only have the offenders become more circumspect, but some have come to the conclusion that the increased possibility of exposure makes wrong-doing too risky.

The cleansing of Indian public life will, no doubt, be a long and drawn out affair, but the process has started – and is irreversible.

The new print press activism has meant that today the profession is much more self-assured. Government largesse – including newsprint quotas and official advertisements – no longer decide the destiny of publications. The consumer is king, and cut-throat competition – Delhi alone has more than a dozen English broadsheet dailies – keeps editors and managers on their toes.

Alas, savage price wars and the downgrading of journalists' status has crept in. Proprietors and managers frequently make senior editorial appointments and take aditorial decisions without consulting editors.

In the past, the Indian print media produced a succession of strong editors who stood up to both governments and owners. Many of these have now either left the profession or succumbed to a new culture.

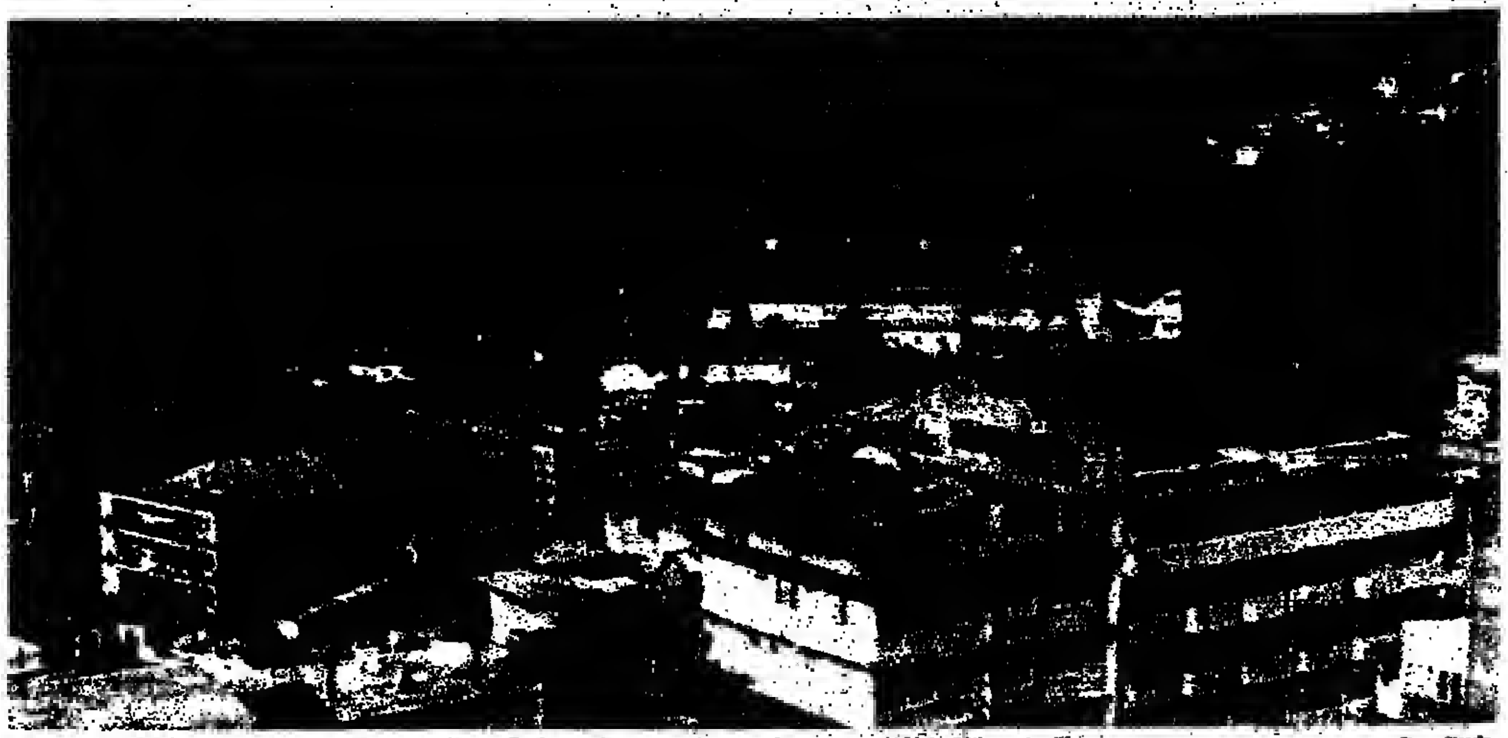
In spite of turbulence and tension, the media are generally healthy. Print and television have learned to coexist – the latest figures show that 62 per cent of advertising expenditure is in print.

Abova all, the print media and, particularly daily newspapers, enjoy high credibility. One reason for this is the lack of any tabloid culture.

The press may be solemn, over politicised, ponderous and longwinded, but is relatively free from triviality, sleaze and celebrity muckraking. It is an asset not to be squandered.

• *The author is editor of Outlook, the Indian weekly magazine*

DARJEELING • by Stefan Wagstyl



Tea planters still cling to times past, but for the main part Darjeeling has surrendered to the pressures of late 20th century life Photo: Dinodia

An uphill struggle for nostalgia

Pride of place in the New Elgin Hotel at Darjeeling goes to the coronation portraits of Queen Elizabeth II and the Duke of Edinburgh. They preside over an establishment which hangs chintz curtains in the windows and serves porridge for breakfast and trifle for pudding.

Outside, the bells of St Andrew's Church still toll the hours on Observatory Hill, the nuns of Loreto Convent meet for daily prayer, and the Gymkhana Club holds roller-skating parties on its indoor rink.

Those in search of Imperial nostalgia can find it by the bucket-load in Darjeeling. But the relics of the Raj are best experienced through eyes half shut. For everywhere, the sights, sounds and smells of modern India press upon the vestiges of the colonial world.

Visitors are woken in their hotels not by the songs of mountain birds but by the clatter of taxi engines. The smells in the streets are not those of Himalayan flowers but of diesel and blocked drains. The (very) distant views of Kanchenjunga and other snowy peaks remain unchanged, but the once-verdant slopes below Darjeeling's old centre have been covered by a sprawl of concrete and corrugated iron roofs.

A town built by the British for 10,000 is now home to 100,000. Instead of a few thousand servants of the Raj and their followers, Darjeeling hosts 500,000 tourists a year. British visitors have becoma a minority – outnumbered by Americans, Japanese, French and Germans. The great majority of tourists are Indians who come in the summer months to escape the heat of the plains.

Mr BK Mokhia, a retired army officer who is the town's deputy director of tourism, says: "I remember when everything in Darjeeling was neat and clean like the British left it. Now it is difficult to cope."

The demands of catering to so many tourists strain not only Darjeeling's environment but also its residents. The people of Darjeeling are mainly Nepali-speaking Gurkhas, who served the British in the army and the many tea plantations in the surrounding hills. Today, the Gurkhas prefer working for high-spending foreigners rather than budget-conscious Indian tourists. Arguments, and even fights, break out.

Mr Ranen Datta, secretary of the Darjeeling Planters' Association, an outsider who settled in Darjeeling 15 years ago, says: "In the days of the British, the visitors were mostly affluent and leisurely. They did not have to argue with the local population about money. Today, the people who come have had to earn their monay. They want to bargain. Naturally there are incidents."

The Gurkhas' resentment has spilled into political agitation for increased local autonomy. Slogans in support of the Gurkhaland Liberation Front, the leading Gurkha political party, are daubed on walls. The Front has won a measure of self-government for Gurkhas but is campaigning for more. A 29-year-old teacher says: "We hate being told what to do by Calcutta (the capital of West Bengal, to which Darjeeling belongs)."

Older Gurkhas are often heard to say that life was better under the Raj. Visitors sipping their fresh lime sodas on hotel verandahs might be tempted to agree. But they would be wrong.

Since the British left, the Gurkha peopla live longer and healthier lives than before. They are more likely to attend school, read books and have their homes supplied with electricity. Like other Indians, they have benefited from independence, even if thay are often troubled by the strains it has created.

Moreover, the best of the Raj has often not been lost but incorporated into modern Darjeeling. The old colonial schools, established mostly as boarding schools for Europeans and wealthy Indians, now mainly serve the children of Darjeeling. At the Loreto Convent, where Vivien Leigh was once a pupil, the last English girls left in the 1960s. Their places have been taken by Nepali, Bengali and Hindi speakers, whose parents value education at least as much as their colonial predecessors.

In the hills, the tea gardens have changed littla since 1947. Only one English tea planter still works in Darjeeling – Mr Teddy Young, manager of the remote Tumsong estate. But the biggest owner is Goodricke, a Calcutta company controlled by British shareholders.

Mr Amar Nain, who works on the Goodricke-owned Castleton estate, says that even though the management of tea plantations is now in Indian hands, the principles of running an estate remain the same. "The manager is still responsible for solving all the problems like he was before. It's lika being the godfather."

Planters still frequent the teak-panelled rooms of the Planters' Club in Darjeeling. But Mr Nain says club life is in decline because of longer working hours and the advent of television and video. "The clubs look like they did 20 or 30 years ago but club life is, unfortunately, dying off."

It is a tribute to the British influence in Darjeeling that even modern-minded Indians like Mr Nain speak about the past with a touch of nostalgia. There seems every prospect that even when the New Elgin Hotel's coronation portraits have faded into oblivion, the living legacies of the raj will survive.

CRICKET • by Alexander Nicoll

Passion is the name of this game

Stadium crowds are fanatical - yet usually they have to endure poor conditions

It was after midnight on a baking May night in Madras. There was hardly a hint of breeze to bring relief to the exhausted cricketers and the huge crowd crammed into Chepauk stadium. Bnt, in spite of the heat and the sapping humidity, the passion was still intense, the noise still deafening.

This was no ordinary cricket match. It was between India and Pakistan, enemies for 50 years who hardly ever play each other on home soil. It was being played at a time of the year – and of the night – not previously contemplated for cricket. And it was a fantastic match, in which the world one-day hatting record was spectacularly broken by a man who could hardly walk because of dehydration and cramp.

All in all, it was sport breaking new boundaries, being played at the extreme...and it was exciting.

If there is one thing that comes close to unifying Indians across barriers of religion, caste, class and even gender, it is cricket. Go anywhere in India, from whatever small flat epaces can be found on mountainsides in the Himalayas, to the middle of hectic city streets, and you will find cricket being played earnestly.

Every afternoon on tha *maidan* in Calcutta, scores of boys turn up to cricket training schools. At Shivaji Park in Bombay, hundreds of people play games which overlap with each other.

Everybody wants to be, or to spot, the next Sachin Tendulkar, who started his cricket in the park in Bombay, played for India at the age of 16, and was last year appointed captain of the national side at 23. Apart from being a master batsman, he is also fabulously rich, to be seen in countless television commercials.

Indians love to watch cricket. When international matches come to their city they flock to the stadiums. The crowds are noisy, partisan and excitable.

India's semi-final in last year's World Cup had to be called off when the 100,000 crowd at Eden Gardens stadium in Calcutta – the headquarters of Indian cricket – rained plastic bottles on tha ground in disgust at the home team's performance against Sri Lanka.

Poor crowd behaviour is understandable given what spectators have to endure.

Most grounds have almost no facilities such as toilets or drinking water. Holding a ticket may not guarantee entrance, but means queueing in the heat and being harassed by police who confiscate even sandwiches. In Delhi last year, police on horseback "lathi-charged" (attacked with sticks) people waiting to get in to a match for which tickets had been grossly over-sold. People who have managed without water for hours in the heat want to see India win for their trouble.

Cricket has remained a national passion in spite of the persistent failure of India's cricket authorities to do anything to make the game better for poorly-paid players and ill-treated spectators.

For decades, cricket was run like any other part of the Indian bureaucracy, with privileges, patronage and influence of office more important to its holders than the efficient running of the game itself.

But a lot of that has changed in the 1990s, largely because of Mr Jagmohan Dalmiya, a wealthy businessman from the entrepreneurial Marwari community, who is secretary of the Board of Cricket Control in India. He realised cricket's huge commercial potential as television escaped from the clutches of the staid state-owned broadcaster, Doordarshan.

Doordarshan did not pay to show cricket, and even demanded money to do so. Mr Dalmiya says: "Cricket, being popular and self-financing, took a stance that we must get a share of the revenue earned by Doordarshan or go elsewhere in the world to whoever was prepared to pay. Doordarshan was paying for everything that it was showing, except sport."

Mr Dalmiya won the backing of the supreme court for his award of television rights to Indian matches to foreign satellite broadcasters. Money has since poured into the game thanks to apparently unlimited demand from Indian corporate sponsors.

The proceeds from the World Cup have been used to put floodlights in many Indian grounds, in turn creating demand for more international matchas and more sponsorship. Cricket has become one of the greatest commercial successes of post-liberalisation India.

In addition to winning the right to host the 1996 World Cup for the Indian sub-continent, Mr Dalmiya has capitalised on the intense feeling between India and Pakistan to organise tournaments involving the two countries, but in new venues such as Canada. The annual schedules of Indian players, previously quita relsxed, are becoming hectic, with more one-day international matches and an ever-longer season.

Mr Dalmiya, who this month becomes president of the International Cricket Council, seeks to reassure traditionalists: "One-day cricket is required because people require a fast result and a kind of excitement and thrill, but cricket will be killed if the five-day game is not nurtured," he says.

To attract viewers and more sponsorship, he can be expected to try experiments such as the Independence Cup, which brought Pakistan to Madras in May.

Mr Dalmiya – although he does not say so – needs India to win more, especially abroad, if the commercial juggernaut is to be sustained. Reform is needed in moribund domestic competitions, in the national team management and selection system and in the care of the playing surfaces, which help India to win at home but do not prepare the team to do battle abroad. Players who are below top level need to be treated better. Mr Dalmiya is taking steps on most of these fronts.

"We used to get Rs5 a day for Ranji Tropby (the main domestic competition) matches, and we travelled by train," says the Nawab of Pataudi, a former Indian captain. "There is much more money in it now, for everybody."

There is also passion of a kind that players such as Pataudi can hardly have dreamed of in thair more sedate playing days. Mr Dalmiya, and world cricket, are on to a winner.

Howzat! In the parks, everybody dreams of being the next Sachin Tendulkar. He started his cricket in Bombay parks and now captains the national side Photo: Marcus Oleniuk

BOOKSHELF • by Alexander Nicoll

An Indian bibliography

A subjective selection of good reading

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Reforms stir fresh hopes

Continued from Page 1

ment, at all levels, will provide the framework a thriving market economy requires. As politics is becoming more local, it is also fragmenting on communal and caste lines, as the Hindu revivalist Bharatiya Janata Party (BJP) replaces Congress as the strongest national party.

The division of financial responsibility between the centre and states is still to be put on a sound hasis. Moreover, many states are as corruptly and incompetently led as the centre has ever heen. Competition among them is the answer. But some will fail. If Rajasthan, Madhya Pradesh, Uttar Pradesh, Bihar and Orissa – that great northern belt of poverty and backwardness, with almost 45 per cent of the population – continue to fall behind, the stability of the country may be endangered.

Worse, in India's diverse society, greater democracy may lead to still stronger pressures from narrow special interests. Decentralisation may give not better government, but a more chaotic ona. Yet the state has an essential rola to play. It must deliver further economic reform, improve basic education and health, and provide an adequate infrastructure.

Tha state must also be strong and bold enough to deliver peace with its neighbours. Nothing is more likely to excite the passions of the people and divert the attention of the politicians than external conflict.

The troubled relationship with Pakistan – legacy of the division of the sub-continent, the war over Bangladesh a quarter century later and the friction over Kashmir – remains the chief worry. But relations with India's giant neighbour, China, with which it fought a war in 1962, are also central. Fortunately, the naw prime minister, Mr I.K. Gujral, recognises India's need for peace and sees its connection to prosperity in the region.

The Congress-dominated, centralised India is now as completely in the past as the British raj. The new India will be one of competition and decentralisation. It will be more unpredictable and chaotic, but it may, with luck and judgment, also eschew the old conservativism and complacency. If so, it could, for the first time in the people's history, offer the mass of Indians a chance of prosperity.

In more than 20 years as the BBC's man in New Delhi, **Mark Tully** covered the country's every corner by road and rail. Here he describes two of India's most venerable transport institutions

Lovable relic of the 'permit raj'

The rugged Ambassador is favoured by those who know the potholes of India

The businessman emerging from New Delhi airport hopeful of finding a new foreign investor-friendly Indie will immediately be confronted by s symboi of what to him is the bad old protectionist India – e line of yellow and black Hindustan Ambassador taxis.

But those of us who have lived in India for e long time have learnt to love the Ambassador, the Indian version of Britain's 1950s Morris Oxford or Austin Cambridge.

Its friendly pug-nosed face, with headlights like Thomas the Tank Engine's eyes, its aerodynamically unfriendly rounded bowler hat roof, and its unfashionable high gait recall the gallant days of motoring when drivers never knew whether they would reach their destination without a breakdown.

It is the steam engine of the road, a challenge to drive, and requiring much maintenance. Like the steam engine it has a long working life. Many of the Ambassador taxis in New Delhi must be at least 20 years old.

The Ambassedor is rugged. A recent advertisement admitted that modern cars scored on fuel consumption and speed – but claimed the Ambassador won bands down when it came to potholes.

The Ambassador car has survived decades of use - and abuse - on India's tough roads. Inset, Mark Tully admires one of his favourites Photos: Marcus Oleniuk

It has advantages, too, for the taxi driver who charges on a per-capita basis and for the joint family. Probably no one knows the record for an Ambassador's load. Tbe claims go as high as 30 passengers – certainly 20 in and on an Ambassador in the remoter parts of India

Potholes, unmarked speed-breakers, bullock cart drivers for whom left and right have no meaning, lorry drivers who claim the freedom of the middle of the road no matter how narrow, and many other hazards mean breakdowns and eccidents are frequent on Indian roads.

Here again, the Ambassador scores. Over the many years that it has dominated Indian roads, there has evolved a vehicle recovery system as efficient as – and a lot cheaper than – Britain's AA or RAC recovery schemes.

Almost every village on s main road has its *misteri*, or mechanic, who knows the Ambassador like the back of his hand. He is a master of improvisation, never stumped by the lack of spare parts. If you cannot get the car to the *misteri*, he will come to you and repair it on the spot.

Once I had the misfortune to collide with a tractor. My Ambassador limped to the nearest *misteri*, who extricated the fan from the radiator with a yank on a crowbar, filled np the radiator with a mixture of water and turmeric, and told me to get it welded in the next place where there was any electricity.

The turmeric sealed the worst of the leaks and I reached a welder after one or two stops to take water.

Ambassador *misteris* have a language of their own: "shockers sit down" means collapsed shock-absorbers; "brooshes" are brushes which need replacing; a "denter" removes dents others have caused. *Misteris* are also inclined to be cavalier in their attitude to minor problems. A driver complained that a *misteri* had not repaired his brakes, and was told "the car is going now and that is what matters".

But it is not just the Ambassador's suitability to India's own very special road conditions which have kept it going so long. It was the beneficiary of those long years of economic planning, when industrialists had to get a licence from the government to make any investment, the notorious "licence permit raj".

Licensing enabied 20 or so families to retain a stranglehold over the industrial economy by using their influence with politicians and bureaucrats to ensure that their products were not threatened by competition. Hindustan Motors, the maker of the Ambassador, is owned by a branch of the powerful Birla family.

It was not until the early 1980s that the Ambassador faced any serious competition. Indira Gandhi's younger son, Sanjay, was a former apprentice with Rolls Royce in the UK and had the political clout to obtain a licence to manufacture a "people'e car" called after the wind god Maruti.

When Sanjay was killed while doing aerobatics over New Delhi, the Maruti was still on the drawing board. To perpetuate his memory, Mrs Gandhi took the unprecedented step of offering equity in what was by then a nationalised company to a foreign corporation, Suzuki.

Small, modern cars soon started pouring off the production line, but the ancient Ambassador retained a sizeable share of the market.

When India did at last open its economy to foreign investment Ford, Peugeot, Daewoo, General Motors, Fiat and Mercedes entered the market. But India is a land which values tradition, and Hindustan Motors is still building 25,000 Ambassadors a year.

The Ambassador is cheaper than its more fashionable competitors, and the government provides a guaranteed market – it is still obligatory for ministers and officials, from the prime minister down, to travel by Ambassador.

To give the Ambassador its dne, it also remains the first choice of many wbo know the pitfalls – and, of course, the potholes – of Indian driving. Hindustan Motors says it has no intention of phasing it out. So the Ambassador lingers on, a symbol of the licence-permit raj which is also taking its own time to fade away.

Along the old tracks

Indian Railways sees no need to mutter modern management mantras

Indian Railways defies modern management. It is nationalised and there is no prospect of privatisation. Serious scaling down is not discussed – although the railway probably has the largest payroll in the world, with more than 1.5m staff and seven times more manpower per kilometre than most European railways.

It owns a profitable core business running trains between the main cities of India, but closing thousands of miles of unprofitable rontes is not on the agenda.

Politics, not the market, dictates the pricing structure. Politicians force it to subsidise some of its potentially most profitable businesses, like the Bombay suburban routes which carry 6m people a day. About 70m passengers a year do not contribute to revenue because they travel without tickets.

The latest venture, the new West Coast line linking Bombay with the tourist haven of Goa and all stations further south, passes through areas which the management realises will never generafe much traffic. The ambitious plan to tunnel through the mountains into the Kashmir valley will never show a return.

But Indian Railways does not believe there is any need to follow fashion and mutter modern management mantras. It is very happy as it is.

Mr M. Ravindra, chairman of the railway board, was asked whether he had ever thought of employing consultants. He replied: "We have managed change for the past 20 years without the help of those smart alecs."

There has been change, and Indian Railways is an expanding business. Passenger traffic is more than holding up. The system carries more than 11m people a day and there is an unmet demand, as anyone who tries to reserve a seat or sleeper soon discovers. Sixty per cent of the nation's freight is still moved by rail, too.

The railway's earnings from freight and passenger traffic rise annually and make a profit, after paying dividends on the government's investment and interest to other lenders.

The changes include gradually overcoming the disastrous British legacy of having two gauges. Last year another 758km of track was converted to the 5ft 6in standard gauge. Steam has been phased out – but gradually to give the railway time to develop its own capacity to manufacture diesel and electric locomotives. Last year 609km of track was electrified.

But what of the future? Road transport, which has wreaked such havoc on railways in other countries, is still hampered in India by a lack of motorways. Building modern roads is one of the government's priorities, so how will the railways fare when India does enter the motorway age?

The fastest train between Delhi and Bombay travels at an average 40mpb, and many expresses travel e lot slower. As a regular rail traveller I am often reminded of the guard who, when I suggested that our train was very slow, replied: "Oh no, this is a Superfast Express, it's just travelling very slowly."

Rail travel is comfortable for those who can afford the more expensive air-conditioned coaches, bnt those who have to fight their way into a "second class unreserved" carriage would be glad of any alternative form of transport.

It was suggested to Mr Ravindra that there might be difficult days ahead, he replied: "I have no worry about passenger traffic." He believes rail will always have the advantage over road on long distances, and does not believe anyone will ever want to drive from Delhi to Bombay. As for air, he is confident most of his passengers will not be able to afford that for a long time.

The railway has a clear strategy for retaining its freight traffic – concentrate on bulk.

Sir Frederick Burrows, the last British governor of Bengal, was a railwey tredes unionist and proud that, unlike his hunting and shooting predecessors, he was a shunting and hooting man. But there is to be no revival of that on Indian Railways. Single wagon loads are not encouraged.

Last year bulk traffic accounted for 96 per cent of the freight tonnage. Coal alone accounted for 47 per cent. But how long will it be before India too decides to reduce its coal consumption in favour of less environmentally-damaging fuels?

India is an ideal country for rail transport. It has the long distances needed for profitable haulage, and there are plenty of potential passengers. Its vast population is perpetually on the move, travelling to find work, to attend family occasions, to places of pilgrimage.

Nevertheless, I wonder whether the chairman of the railway board is not just a little complacent about the threat from motorways.

WEATHER FORECASTING • by Stefan Wagstyl

Sir Gilbert's way lives on

The Met Office still uses a 1920s formula to predict annual rains

Mr N Sen Roy, director-general of meteorology, is the top weatherman in a country where the weather matters more than in most other places.

Indians literally live or die by the accuracy of his forecasts. Mr Roy is not overwhelmed by the burden of his responsibilities. He jokes about the "blind faith" people have in weather forecasts.

But behind the humour there is a serious scientific mind at work, co-ordinating 8,500 staff spread across India who produce painstakingly detailed records and use the information to make predictions.

The data pours in from village rain gauges and from satellites, from radar stations and from balloons, into a network of computers headed by a US-made Cray machine, one of the world's most powerful. The forecasts range from emergency warnings of imminent storms, flashed electronically across the country, to the carefully choreographed annual monsoon prediction for northern India.

The monsoon forecast, made about a month before the rains are due, attracts the greatest interest from villagers and economic planners alike. But Mr Roy shakes his head at the trust people place in his words. "Predicting the monsoon is a statistical technique. It deals with probabilities, not with certainties."

Storms ahead: Monsoon clouds gather after e dry season

Mr Roy pays tribute to those who have wrestled with the challenge before him. Their names are written on an honour board in his office, headed by H.F. Blandford, the first imperial meteorological reporter, who pioneered monsoon forecasting in his tenure from 1875-89.

Working in Calcutta, he gathered around him Indian scientists for whom meteorology offered virtually the only chance of a scientific career. "From the beginning they were encouraged to pursue their own interests, so the department developed a tradition for scientific inquiry which exists to this day," says Mr Roy.

He reserves the highest praise for Sir Gilbert Walker, who headed the department from 1904 to 1924 and devised the methods of monsoon forecasting still used today.

Sir Gilbert noticed that changes in monsoons often coincided with shifts in weather patterns as far away as the South Pacific and the North Atlantic. Without knowing why these phenomena were linked, he used the information to forecast monsoons – with startling accuracy.

Mr Roy says that today's model, with 16 variables, still uses phenomena identified by Sir Gilbert as well as others – such as movements in the El Nino current off the coast of South America and variations in Himalayan snowfalls.

In spite of the difficulties of predicting monsoons, Mr Roy says his biggest task is managing his personnel. From its modern headquarters in New Delhi, Mr Roy has to send officials to hundreds of observatories in far-flung corners of India, where they do not necessarily wish to go.

"I receive so many representations," says Mr Roy, explaining that he has to separate those with valid objections to a posting from those without.

"It's like being e doctor. The man who comes with toothache will complain as much as the man who comes with heart trouble. The doctor knows that the man with heart trouble is the one he must take seriously. It's the same for me."

Mr Roy also keeps a careful eye on the department's image. Among its offshoots is a centre in Calcutta for calculating the precise position of the planets and stars in the Indian heavens. The information is vital for the country's many astrologers and their clients.

Mr Roy denies that he is endorsing a decidedly unscientific activity, even though the department distributes the data in 13 Indian languages.

"We are providing a service," he says. "We could earn a lot more revenue taking advertisements from astrologers, but we don't do that."

India 50 YEARS of independence

New heroes and a new mindset for year 2000

Gurcharan Das discovers on his travels around India that a nation of a million millionaires is on the way

Raju's 14-year-old face breaks into a broad grin as he briskly serves south Indian coffee at a roadside shop between Madras and Pondicherry. "This, sir, is my summer job," he says.

"I earn Rs400 a month and I spend it all on computer classes in the neighbouring village. Our stupid village doesn't offer private computer lessons. So I cycle 3km to the next village, where I learn computers two evenings a week. Our school does have two computers, but there is always a rush, and the older boys push me out. That's why I am taking summer classes. Next summer, I am hoping for a summer job in a computer firm in Madras."

"What will you do when you grow up?" I ask.

"I am going to run a computer company."

"How did you decide that?"

"I saw it on TV, where this man, Bilgay, has a computer software company in America and he is he richest man in the world."

Five years after the economic reforms of 1991 I travelled 10,000km across India, taking both the high road and the low. The biggest change I found was a radical new mindset among the people. Raju is a symbol of this brave new world view.

A week after meeting Raju I was in Bombay, where I saw two young men in their early twenties walking at Nariman Point. They stopped to look at a tall building in awe. "So, this is it!" said one. "This is it," replied his colleague, looking up with reverence at the office of Dhirubhai Ambani, founder of the Reliance industrial group.

"He came from nowhere and went up and up. They expected him to fall, but he refused and he built instead the largest company in India." The two young men had come from Pune and they were paying homage to their hero.

Forty years ago, when I was growing up, our heroes were Nehru and Mahatma Gandhi. Today it is Ambani and Bill Gates.

Indians have traditionally not accorded a high place to making money. It is for this reason that the merchant or baniya is placed third in the four-caste hierarchy, behind the brahmin, the priest, and the kshatriya, (variously landholder, warrior, ruler), but ahead of the shudra or labourer.

With the recent ascent of business after the economic reforms this order is now threatened. The sons of brahmins and kshatriyas want to be entrepreneurs. The high priest at the Tanjore temple, a leading Hindu temple in south India, says this mixing of caste occupations is "deplorable ... the beginning of the end".

Even traditional baniyas are upset. Krishan Lal Gupta, a merchant from Baroda, said: "It is money, not power, which motivates young people today, and everyone wants to be a baniya in this country. It wouldn't be so bad if they were trained in the norms of business. I mind it when others muscle in on our territory ... (and) then give our business community a bad name when they get into trouble. Do they think making money is easy? It is a skill inherited over generations."

Mr Rakesh Mohan, an economist, calls it the "banianisation of Indian society". The new mindset says that it is no longer dishonourable to make money.

This phenomenon is to be found in abundance across the nation.

A government schoolmaster laments that "everyone has become money-minded".

He says: "I am losing all my students to the new private school that opened in our village six months ago. They have to pay Rs30 a month compared to the Rs1 a month in my government school yet – can you believe it – the poorest Chamars of the untouchable caste are paying good money to send their daughters and sons to the new school?

Why are they leaving his school?

"Because they watch TV. They want to learn English. They want to be rich."

Mr Fateh Singh, a Chamar who stands shyly outside the door and who will not sit with us because we are in a Rajput's house, says: "There is no loyalty left – everyone wants to get rich fast." But his grown son, Vikas, says he wants to set up a factory to make trunks rather than become a conductor in the state-owned bus company.

Fateh Singh is annoyed because he thinks his son is a fool to let go of a secure job which he has obtained for him through influence.

The 200 families of Babnam village in the Hooghly district of West Bengal have learnt to rely on themselves. Each family earns Rs8,000 a month from making fine chikon embroidery.

"The last place I will go for help is to the government," says Golam Mandal. Suspicion of the government is part of the new mindset, in sharp contrast with just 20 years ago when the people considered the government to be "mother and father".

Even the judiciary and the trade unions have been affected by the changing attitudes. "Justice Sawant of the Bombay High Court now delivers five out of 10 judgments in favour of business. Earlier, 10 out of 10 judgments were in labour's favour," says Zia Mody, a young high-powered lawyer.

Even the street urchins have been infected by the new commercial energy. Kum Kum at the Janpath traffic lights in Delhi says her gajras (bands of perfumed flowers) are fresher because she puts them in a refrigerator to keep them cool. As a result, more of her gajras adorn the hair of young socialites in Connaught Place than those of her competitors.

Three thousand miles away, Sushila has started working in the Presidency Kid Leather factory. She earns Rs1,400 a month in Guduvencheri village in Tamil Nadu, making shoes for Florsheim, Clarks and Marks and Spencer. She is proud of the shoes she makes, but prouder of the dowry she is saving for herself.

All these people represent a new attitude which is increasingly determining India's identity.

The spirit of the age is reflected in the vast number of rags-to-riches stories. This is not due only to reforms, but is the result of the prosperity of the 1980s, when hesitant efforts with liberalisation lifted the Indian economy's growth rate from 3.5 per cent to 5 per cent. As a consequence, the middle class started to grow rapidly. Rural demand for everything from washing powders to black and white televisions exploded.

The reforms of 1991 then unleashed pent-up energies and created a new confidence among young people. Becoming rich has become fashionable. A government job was the route to success in the previous generation, now the smart thing to do is to go into business. Money has replaced power and privilege.

Mr Pradip Kar, a Kashmiri brahmin in his late thirties, has built a Rs1.2bn company from scratch in Bangalore. His goal is to reach annual turnover of Rs10bn by 2000. Success has come since the

Continued on Page 18

TATA GROUP • by Alexander Nicoll

Chairman tightens grip over loose confederation

Ratan Tata is seeking to focus the group on core businesses

For a corporate maharajah with a famous family name, Mr Ratan Tata has an unusual mission. "My endeavour has been to try to depersonalise the whole thing, to try to put (the group) into some structure that will outlive me."

Mr Tata has for six years been the custodian of India's biggest industrial group. Its steel company, which provided 1,500 miles of rails to the British in the first world war, runs a whole city in eastern India. Most of the trucks which bump over the country's atrocious roads carry the Tata name. In 1903 Sir Jamsetji Tata built the landmark Taj Mahal Hotel, next to the Gateway of India on the Bombay waterfront.

The Tata group supplies alectricity to Bombay, and makes chemicals, tea and air conditioners. More recently it has gone into cars, watches, finance, information technology and telephones, although it remains strongest in its more traditional activities.

Unlike many other captains of Indian industry, Mr Tata is not struggling to keep a family-controlled group going. Management has been handed down through generations of Tatas, but the family is not thought to be particularly wealthy and has only a small stake – the group holding company is owned mainly by charitable trusts and a construction magnate.

Mr Tata is 59, unmarried, lives modestly, and strongly prefers to be out of the limelight. He is determined, however, to keep tha group together and to refocus it.

He was appointed in 1991 to the chairmanship of Tata Sons, the group holding company, by J.R.D. Tata, whose patriarchy spanned 53 years from 1938. Ratan was a cousin of J.R.D., descended from a different branch of the family.

His accession coincided with the opening of the economy to foreign investment, the lowering of import tariffs, and the removal of the government's stranglehold on private business. While Indian companies suddenly had more freedom, they also had more competition.

Mr Tata had long been arguing for restructuring, but the liberalisation of 1991 and stock market reforms since have made an overhaul imperative. The new business environment was a far cry from the situation in 1972 when J.R.D. Tata, lamenting the web of controls which the government had placed on business, said: "I doubt that there is anywhere in the world outside India, any industrial executive in charge of a major enterprise with less real power than I have."

It was largely due to the dominant personality of J.R.D. Tata that the group managed to keep together and to maintain high ethical standards when it was commonplace for companies to pay politicians and bureaucrats for the licences needed to expand their businesses. But his tenure left a difficult legacy for his successor. Mr Ratan Tata's ability to force adjustment to the new liberalised world was aeverely constrained.

Many group companies were operating as highly independent entities, with powerful chairmen unwilling to cede power in their fiefdoms – some wanted to hand over to their sons.

"Companies over the years have done what they considered right for themselves in terms of entering new businesses . . . and hava often turned to the group . . . when they have had to go to their bankers or seek a collaborator or sometimes, unfortunately, when they have been in trouble," Mr Tata says.

The Tata group, he adds, needs to have tighter control. Although companies should retain their autonomy, their confederation should be closer.

The group has taken some steps to enhance control, such as enforcing a retirement age of 65 on managing directors of group companies and 75 on chairmen. This has produced some fierce encounters – the chairman of one long-standing Tata company, who is over the retirement age, is insisting it is not part of the Tata group. But as chairmen have retired, Mr Tata has assumed their positions himself.

Mr Tata's power to make the companies conform to a group discipline was also cramped by the small stakes which the Tata holding companies held in some of the operating companies – in turn a result both of government regulation and the way that J.R.D. Tata chose to finance expansion, with operating companies spawning subsidiaries in which the Tata holding company had little direct interest.

With India adopting a new takeover code, some of the Tata companies were clearly vulnerable to raids and Mr Ratan Tata has increased the group's shareholdings. The stake in Tata Steel had fallen as low as 3 per cent in the 1980s, but is now 15 per cent. He caused a storm of controversy in 1995 when he asked group companies to subscribe to a rights issue of shares in Tata Sons, which then used the proceeds to increase its holdings in the group companies.

There was also criticism of his proposal to charge group companies a small percentage of their profits for the right to the Tata name – even if they do not actually use it – although they are mostly expected to fall in with this. If they agree to a new Tata code of conduct they will have the right to call themselves Tata group companies and their payments for the rights to use the Tata name will be spent on developing the Tata "brand" worldwide.

Running in parallel with these efforts to centralise control are Mr Tata's attempts to focus the group on the areas where it is dominant and successful, and to stop Tata companies competing with each other.

Tata engaged McKinsey, the management consultant. Its study is expected to lead to the consolidation of some businesses and the sale of others. Plans for the sale of businesses will perhaps be the next battleground between Mr Tata and his executives. But there is no doubt that he will continne his efforts to tighten control over the group, which he admits have had mixed success so far.

Mr Tata says: "No one is undertaking a massive kind of merger of all companies into one, or any such dramatic move. I think what one is trying to do is to leave the companies as they are with their autonomy, strengthen them where they can be merged together or consolidated, provide inputs to them in terms of the direction in which they are going and, in aome cases, be quite firm with them in terms of where we would not support them. I think this business of being benign and distant is something that we need to change."

Coming soon: a million millionaires

Continued from Page 17

liberalisation of the computer sector because he has focused single-mindedly on networking – getting computers to talk to each other.

His employees include 65 MBAs and 250 engineers, many of whom have been trained at the Indian institutes of technology (IITs) and the regional engineering colleges.

Mr Narayana Murthy won a place at IIT Kharagpur in 1962, but could not take it up because his father could not afford Rs150 a month for the hostel. His father earned a paltry Rs500 a month as an assistant education officer of the Karnataka government, and with that he supported eight children.

Today, Mr Murthy is 43 and worth Rs600m, based on the market capitalisation of his stock in Infosya, a software exporter based in Bangalore.

It is an impresaive company, with about 1,000 professional employees, all of whom have an option to acquire shares in tbe company after three years' service. Their success lies in teamwork, which is in great part due to Mr Murthy.

Seema and Sham Ramanna, both in their thirties, have built the country's biggeet computer-generated visuals and graphics company for the advertising and film industries.

Kiran Mazumdar, a woman in her early forties, has built a Ra250m biotechnology husiness from the export of enzymes. She is now moving into the drug discovery side of biotechnology with a group of international investors.

These are just some of India's new entrepreneurs. If China, which started reforms in the late 1970s, boasts 1m millionaires and 18m entrepreneurs, I wonder how many we have in India. India's reforms may be only six years old, but the country bas always had entrepreneurs. In spite of the government'a best efforts, it did not wipe out enterprise in the past 40 years. A walk to the bazaar is all one needs to see that the spirit of enterprise is alive.

Under the socialist "licence permit raj" industrialists may have got into bad habits spawned by protection, but their behaviour reflected just as much entrepreneurship in the way they won and lost market share in the bureaucrat's office. They merely played by the rules of the old game.

The difference between the old industrial houses and people like Mr Murthy, Mr Kar and the Ramannas is that they are creatures of the competitive economy. Withoot the shackles of licensing and controls, of closed borders and of high taxes, the country will release new anergies and India will also have 1m millionaires.

● *The writer, formerly chief executive of Procter & Gamble India, is chairman of the board of Citibank India and a member of the government's Foreign Investment Promotion Council*

PROFILE

Polyester pioneer forges ahead

Mr Dhirubhai Ambani, founder and chairman of Reliance Industries, is one of the pivotal figures of modern India. With skill and daring, he has levered the company to a point where it is starting to be ranked alongside the world's petrochemical giants.

The rise of Reliance has often been controversial, full of no-holds-barred battles with rivals and critics. Its vast network of contacts in business and officialdom is legendary, although criticisms of its use of the network, are dismissed by Mr Ambani as "jealousy".

Though it has sometimes taxed their loyalty, Reliance has a 2.6m-strong army of shareholders who have seen its assets grow from Rs330m in 1977 to over Rs150bn. Sales in 1996-7 were Rs87bn and pre-tax profits were Rs19bn.

Born in 1932, Mr Ambani was the son of an impoverished trader turned schoolteacher from the Kathiawar region of Gujarat. At 16, he went to Aden and spent nine years selling oil products for a western trading house, while teaching himself about markets by moonlighting as a trader in the local *souk*. He returned to Bombay in 1958 with Rs29,000 and started trading in commodities and textiles.

After winning import licences for man-made fibres and yarns, he set up a knitted textile factory in 1966. The company was listed 11 years later and flourished under Mrs Indira Gandhi's government from 1980-84, when it obtained a licence to manufacture polyester yarn.

Further licences awarded by Mrs Gandhi's government began Reliance's strategy of backward integration from polyester yarn to petrochemical intermediates. More recently it has moved into petroleum.

Reliance's expansion needed to be funded. Mr Ambani became god of an "equity cult" that drew in millions of investors attracted by the 75 per cent compounded annual increase in the value of Reliance shares in the early years.

Mr Ambani and his competitors became locked in a struggle to secure market leadership in polyester fibre inputs. Most other producers used dimethyl terephthalate (DMT), which was available locally. Reliance *opted* for a purified terephthalic acid (PTA), which had to be imported. This brought Mr Ambani into direct conflict with Mr Nusli Wadia, head of the century-old Bombay Dyeing, which had a big DMT plant. Mr Wadia won the first round, with restrictions being placed on PTA imports just as his DMT plant came on stream. Mr Ambani's last-minnte efforts to rush in PTA got him into trouble with the government.

In 1986, the Indian Express newspaper asked an accountant to investigate Reliance. After his articles had alleged a string of malpractices, the government stopped Reliance from converting "non-convertible" debentures into equity, and cut duty on polyester yarn. Reliance was left with more debt than it wanted and slimmer profits on yarn production.

A string of agencies, including the Central Bureau of Investigation, the finance ministry's Enforcement Directorate and the Reserve Bank of India were also pursuing investigations.

Mr Ambani fought back with a barrage of advertising and a Rs5m debenture issue which staved off cash problems. After official pressure had abated, he decided to expand with a new petrochemical complex at Hazira, Gujarat. Then the economic reforms of 1991 provided new opportunities to diversify into offshore oil production, power and telecommunications, as well as access to foreign portfolio investment and offshore borrowings. Since 1992, the group has raised $1.76bn through equity and debt issues in Europe and the US.

But the adulation of shareholders became tinged with distrust. The company was accused of price pumping exercises through more than 200 "trading and investment companies".

Reliance fell out of favour with foreign investment funds in 1994 when, without warning of any immediate equity dilntion, it merged two subsidiaries into the parent company at favourable ehare-swap ratios and then made a big private placement to Indian institutions.

Investors were ehaken again when it was revealed that Reliance had issued "duplicate" ehares even though the originals were still in existence, and had also switched shares between investors. (In India, investors own share certificates with specific numbers.)

In October 1996, Reliance was allowed by a court to compound 29 violations and pay a fine, witb the magistrate saying that no evidence had been produced of intent to defraud.

Undaunted, Reliance is continuing its expansion, financed by borrowings of some $1bn in offshore markets. The group is shifting to internationally accepted accounting standards and has brought in foreign accounting and consulting firms to check its practices. Following the share-switching controversy, some 70 per cent of domestically issued Reliance shares have been dematerialised. This was made possible after the launch in 1996 of India's computerised share depository.

The strides which the company has made both in financial performance and on issues of corporate governance are being accompanied by another major change, the gradual transfer of authority from Mr Ambani to his two sons, Mukesh and Anil. It will be hard to replace Mr Ambani's uncanny gift for relationships and psychological insight, supported by a photographic memory for names and faces. "I am willing to *salaam* anyone", he once said. An important part of his appeal has been the ability to convince people in power that he and Reliance were part of India's future, not its past.

● *Hamish McDonald, the author, was India correspondent for the Far Eastern Economic Review, and is now foreign editor of the Sydney Morning Herald. His book on Reliance will be published later this year*

PROFILE

Role model for the new multi-nationals

You can take the man out of Hindustan Lever, so goes the saying, but you can't take Hindustan Lever out of the man.

That is why home-grown managers of the Indian subsidiary of Unilever, the Anglo-Dutch maker of products from Lux to Lipton tea, are courted by multi-nationals entering South Asia.

The managing directors for India of sportswear maker Reebok, beverage giant PepsiCo and telecommunications company Motorola all honed their skills at Bombay-based Hindustan Lever.

"They have a great talent pool," says Mr Garrick D'Silva, president and managing director of Whirlpool India. "Their integrity and work ethic is consistent with ours."

"Hindustan Lever offers the best ready-made material to poach," says Mr Bipin Shah, a retired chairman of Lipton India, a Hindustan Lever affiliate. "Its people have acquired a global outlook and applied it to India."

Cultivating talent that is familiar with the Indian market place and loyal to Unilever's worldwide professionalism is the key to Hindustan Lever's success. The company, which employs 35,000 people, has grown into India's largest by market capitalisation. Although 51 per cent owned by Unilever, it boasts a cadre of managers strong enough to have run the company alone for most of its 66-year history. Since 1961, every chairman has been Indian.

"Hindustan Lever was the first multi-national to Indianise, combining the best of both worlds," says Mr Amit Sharma, managing director of Motorola India. "It's a role model for companies that want to succeed in India."

Hindustan Lever earned a reputation for probity in a country where political interference and red tape prompted companies to bribe their way round bureaucrats. The group adopted a different method to persuade the mandarins to ease up on import or production limits: it made the case for job creation, export earnings and rural development.

Such lessons stuck with Mr Muktesh Pant, with Hindustan Lever for 16 years and now managing director of Reebok. When he wanted to start making shoes locally, he faced a problem. Importing samples, even a single pair, was banned to protect local industry. "Everyone in the shoe trade imported the left shoe into Bombay and the right shoe into Madras," he says.

Determined to find a legal alternative, Mr Pant met officials time and again until he convinced them that foreign prototypes would help upgrade India's industry. Eventually, the government granted Reebok a special licence to import 10,000 pairs.

About three-quarters of Hindustan Lever's current team of 1,200 managers hail from an in-house training scheme that has been drawing graduates of India's premier business schools since 1956.

Mr Pant, a product of the scheme, was sent out at the age of 21 to peddle soap in the small towns of Punjab. "It was traumatic, but it was the highlight of my training," he says. "It builds you from the roots upwards."

These days, trainees spend six weeks in a northern district toiling alongside villagers, with whom they dig ditches and build homes and health centres.

Shortly after being hired by Hindustan Lever at 26, Mr Sander Hemrajani was assigned to manage an animal-feed unit in the southern state of Andhra Pradesh. "I was accountable for sales, profit and yield," recalls Mr Hemrajani, who later joined Whirlpool. "I had a lot of independence to make decisions."

Values such as thrift and simplicity are preached and practised from the top. The chairman flies economy class within India. "I used to make fun of it, now I fly economy myself," says Mr Pant. "It makes an important statement."

Hindustan Lever executives are coveted by other Unilever units. There are 61 Hindustan Lever managers on secondment to group companies around the globe. After battling the infrastructural woes of India, a Hindustan Lever executive is a natural choice for building a distribution network in northern Brazil. An Indian has been named director in China.

Outside the UK and the Netherlands, India is the only country that has supplied two members to Unilever's board.

Mr K.B. Dadiseth, Hindustan Lever chairman, says defections of managers to other companies do not alarm him. "What would concern me much more is a lull in the intake of young top-class management recruits."

The arrival of more foreign companies in India, however, has forced Hindustan Lever to make adjustments. "We have significantly increased our salaries at various levels," says Mr Dadiseth. He reckons that management costs have doubled over the last four to five years as a percentage of turnover. "We are playing in a market. If the market dynamics change, our behaviour must change."

Miriam Jordan

FOREIGN INVESTMENT • by Stefan Wagstyl

Caution on both sides

Overseas capital is wanted but there is concern about its political and social effects

At an international cricket tournament played this summer to celebrate the 50th anniversary of India's independence the name which adorned the hoardings was not that of Nehru nor Gandhi nor even Sachin Tendulkar, the Indian captain, but Pepsi, the US soft drinks company.

PepsiCo's sponsorship of the event might suggest that harmony reigns in relations between multinational companies and the Indian nation. But the truth is rather different.

India remains somewhat ambivalent about foreign investment. It wants the capital, jobs, technology and business know-how that foreign companies bring. But it is afraid of the impact they might have on India's economic, social and political fabric.

The high expectations which were created among foreign companies in the first flush of economic liberalisation in the early 1990s have been replaced by a greater sense of caution – and even, at times, cynicism.

By its own standards India has gone a long way in abandoning Nehru's autarkic policies. But it has much further to go in becoming as open to foreign investment as rival developing countries, notably China.

As Mr Scott Bayman, head of Indian operations for General Electric of the US, says: "In 1993 and 1994, there was a false sense of euphoria. Now people are more realistic. It's going to be 10 or 15 years before we say we are glad about what we did in India in the 1990s."

Ms Boli Medappa, who for five years ran the Indian business development office of US West, the American telecommunications group, says: "The net position is that India remains a very difficult place in which to do business."

Recent governments have welcomed PepsiCo and others to India Photo: Tony Andrews

Economic data support this view. The inflow of foreign direct investment has soared from less than \$100m a year in the 1980s to \$2.7bn in the year to March 1997. A further increase to \$3bn for 1997-98 is forecast by the finance ministry. This is far short of India's international competitors, however. China attracted more than \$40bn last year.

Mr Shankar Acharya, the government's economic adviser, says India's target is \$10bn a year. "We expect investment to grow as projects gather speed. It's a matter of time."

Others believe that without a second quantum leap in the pace of reform to match that of 1991-92, India will remain a relatively closed economy. The International Monetary Fund said in a report last year that even if India adopted a fairly radical liberalisation programme over the next five years, its "degree of openness would remain significantly below the current Chinese level".

India is still influenced by the ideology of the pre-reform years, when multinationals were portrayed as the pillagers of the third world. While many modern-minded middle-class urban Indians believe such views are obsolete, others retain some faith in economic nationalism.

This is particularly true of the right-wing opposition Bharatiya Janata party, which wants foreign investment only in infrastructure, high-technology and export industries. As for consumer goods companies, "we might advise them to pack off", the party says.

The centre and centre-left governments of the 1990s have been far more accommodating and have admitted a string of consumer product companies to India – notably PepsiCo and its rival Coca-Cola, as well as McDonald's, the US fast-food chain, and Kellogg, the cereals manufacturer. However, consumer industry groups face more restrictions than those investing in infrastructure and other priority areas.

The real obstacles faced by many foreign companies lie not in the general direction of government policy but in its implementation. Investors in power generation – a favoured sector – require 42 official authorisations from central and state governments before they can start work. Enron, the US energy group with a showcase project in Maharashtra, found that even securing all these permissions was not enough. The scheme had to be renegotiated when the Maharashtra state government changed.

In telecommunications investors became embroiled in rows over licence awards which culminated in a bribery scandal involving Mr Sukh Ram, the former telecommunications minister.

Public sector corruption is widespread. Mr Bayman at GE says that the company's medical equipment business has won 35 per cent of the private sector market but only 5 per cent in the public sector. "Could somebody tell me why?" he asks.

The root of these difficulties is the reluctance of bureaucrats and politicians to surrender power to the market.

They often have support from the more protectionist-minded business people, led by Mr Rahul Bajaj, chairman of Bajaj Auto, India's biggest scooter maker. Mr Bajaj says Indian companies need time before they can compete head-on with multinationals. Mr Murasoli Maran, the industry minister, agrees. He says: "There's nothing wrong if a local industry wants protection for some time. The US auto industry did it."

Such thinking persuaded the government to bow to pressure from Indian airline operators and block a planned joint venture between Tata Sons, India's biggest industrial grouping, and Singapore Airlines.

Even the Confederation of Indian Industry, the main employers' organisation, which was once a staunch supporter of foreign investment, has become a little more cautious in the past year. It condemned as "cowboys" multinationals which entered a joint venture with Indian groups and later tried to renegotiate or break the deal. The CII was particularly concerned about an abortive attempt by GE to increase its stake in a 40:60 joint venture in domestic appliances with Godrej, a leading family-controlled industrial house.

Few Indian businessmen argue that India can dispense with foreign investment, however. They would prefer to see it in infrastructure, but acknowledge that even in consumer industries there are benefits. Pepsi has invested more than \$400m and created 35,000 jobs – 3,000 at the company and the rest at distributors, bottlers and related businesses. The company last year generated exports of Rs2bn on turnover of Rs10bn. By buying from local farmers, it has also raised quality standards in Indian agriculture.

Mr J.J. Irani, managing director of Tata Steel, one of India's biggest industrial companies, says: "We have some concerns about foreign investors, but basically they are welcome. Everything depends on how relationships (with Indian partners) work out in practice."

BUSINESS DYNASTIES • by T.N. Ninan

Family groups face struggle to survive

Competitive pressure is forcing the traditional business empires to change

At the World Economic Forum's annual meeting in Davos, Switzerland, every January, the Indian contingent of businessmen is the biggest from any "emerging market". Dozens queue to sign up for a variety of sessions.

This flettering image of the size and diligence of India's entrepreneurial class takes a quick battering, however, when a check on the list of delegates shows thet most of them have tiny businesses, by global standards. Turnover is counted in millions rather than billions of dollars. Only two or three make it to the billion dollar category.

The owners of these businesses once straddled the Indian scene like giants – dominating markets, influencing policy, setting the agenda for debate. But six years of Indian economic liberalisation bave reduced them to relative pygmies. And the adjustment has been painful. Markets that they dominated for decades – from cars to TV sets, and from soft drinks to liquor – are under threat, or bave already been taken over by multinationals.

The commodity businesses through whicb many of them prospered – steel, cement, aluminium, chemicals – face price pressure because protective tariff walls are being pulled down.

Mr Shashi Ruia, head of the Essar group (steel, shipping, energy and telecoms) even says thet old-style manufacturing, on borrowed capital, is simply not worth the candle any more. Not too many agree with him on that, but the great indian business family is under threat – and the Birlas, Goenkas, Mafatlals, Singhanias and Thapars know it. For years, these titans demanded economic reform. Now thet they have it they are not sure they like it.

Some of the problems these groups face, however, have nothing to do with liberalisation. Some families have split as brotber has fought brother.

And the splits have been enarvating. Most Indian business families have seen themselves as a local variant of the Japanese *keiretsu* – a multi-product enterprise, held together with cross-boldings, which seeks market power to control finances and supplies and to influence policy. A split threatens this power base.

Many businessman saw joint ventures with international companies as a solntion to the new competitive climate. Since 1991 there have been dozens of new partnerships formed, only for a rude shock to follow.

Many of the partnerships have ended quickly, and in almost all cases the foreigner has increased his stake or walked off with the business.

Peugeot tied up with a branch of the recently divided Walchand group to make cars, but is now negotiating to buy out its Indian partner's holding. Thapar, another group, tied up with Du Pont for s nylon venture, but has pulled ont for shortage of investment cash.

Shell walked out on a branch of the Mafatlal family following a dispute in their chemicals venture. The Mafatlal holding is now on offer to several international bidders.

One of the problems for the business families is that reform of the Indian capital markets has hit them where it burts. Large groups typically control less than 25 per cent of the shareholding in the companies they run. A bigger chunk is usually held by tbe government-owned financial institutions, such as the Life Insurance Corporation and the Industrial Development Bank of India.

These have so far been passive investors, usually supportive of even underperforming managements. But corporate democracy is now on the reform map.

The Securities and Exchange Board of India, the stock market regulator, has put in place a transparent company takeover code. Foreign institutional investors, allowed to buy up to 24 per cent of a company's stock, make their displeasure known very quickly if the management is seen not to be acting in ebareholder interest.

The government-owned financial institutions, themselves under pressure to perform better, are talking of becoming more active shareholders. All this, with some emphasis now on transparant corporate governance, has put new pressure on the business families.

In the past, as most of them admit privately, they fattened themselves by milking the companies they ran. In any conflict of interest between the controlling family and everyone else – including other shareholders – the family's interest held sway. Some of this approach still lingers, but it is becoming progressively more untenable.

Forced by rapidly changing circumstances, many business families are focusing hard on running their companies well. Many are shedding peripberal businesses to concentrate on core areas. The RPG group, with interests in tyres, electricity and plantations, has sold several businesses in recent years, after taking advice from a leading consultancy. The Thapars, dominant in paper and with a substantial presence in textiles, have also been selling businesses.

The Tatas, who own the country's biggest group, have sold Tata Oil Mills, and are considering other divestments. Mr S. A. Sabavala, Tata spokesman, says: "Ws've decided to focus on our core businesses, which are trucks, steel, chemicals and electricity."

This is a sharp departure from tradition. Businesses used to be seen in emotional terms, as family heirlooms. But a competitivs market has brougbt a dramatic change in attitudes. Mergers and acquisitions bave becoms a growth industry.

It may ba coincidence, but the groups which have done well in recent years are the ones with a single market focus and with few family members on the scene. Ranbaxy Laboratories has made rapid strides in pharmaceuticals under the leadership of Mr Parvinder Singh, who kept the company insulated from a family feud that resulted in his separating from his father and brothers.

Mr Rahul Bajaj, chairman of Bajaj Auto, which makes scooters and three-wheelers, has similarly refrained from "diversifying" – once the favourite word for Indian businessmen – and his company is a favourite on the stock market.

Many businessman are redefining their businesses, and indeed their own role.

Mr Shashi Ruia, head of the Essar steel, shipping and energy group, says that old-style manufacturing is becoming a poor way to create wealth. He says shareholder value is created much faster in a service business such as cellular telephones, a sunrise business in which he is a regional operator.

Mr M. V. Muthiah, head of the billion-dollar Murugappa group, says that most Indian businessmen still confuse their role with that of managers. "It is not my business to manage a business," Mr Muthiah says. "An entrepreneur does just two things: allocate funds and allocate peopla. The only other thing he does is to keep track of emerging opportunities and threats."

If most businessmen still try to stay in charge of their companies' day-to-day operations, it is partly bacause being full-time employees of their companies gives them the opportunity to live at company cost. Many businessmen live in homes that are officially company guest houses. This is a remnant of the days of heavy taxation and government curbe on remuneration. In today's more free market environment, businessmen euch as Mr Muthiah feel that they can at last be real businessmen.

Meanwhile, however much the old families may be losing their lustre and position, ambitious new groups are focusing on today'e opportunities, often in the commodity businesses, bnt with a difference from the past. The Ruias, Mittals and Jindals are making sure they set up steel mills that can compete against competition, through economies of scale, minimum staffing and access to cheap raw materials, imported if necessary.

Many are also going into areas such as power generation, which has the dual advantage of being safe from imports and devoid of the need for overbearing foreign collaborators.

Nevertheless, there is little doubt that a shakeout has started, and will continue. Mr S.M. Datta, until recently chairman of Hindustan Lever, Unilever's hugely successful subsidiary in India, says that half the biggest companies and leading groups will have faded out in five or 10 years.

Perhaps the business families that continue to prosper will be those that capitalise on their traditional financial skills, their understanding of the local environment, a low-cost style and the ability to taka quick decisions and move swiftly.

Traditional weaknesses, as Mr Ruia admits, have been brand building and technological development. Industries where these are important will come under the dominance of international companies.

But the real transition is from the Indian *keiretsu* to smaller, focused, more professional groups. From that might emerge Indian groups of real and sustainable size.

● *The author is editor of Business Standard*

GUJARAT STATE • by Tony Tassell

Industrial hot-spot in a hurry

This arid region will reap some of the biggest rewards of liberalisation

It is not hard to find a trader in the hot, dry state of Gujarat. "Throw s stone in the air and the odds are you will hit one," says a local.

For centuries, the coastal state of Gujarat has been a trading centre for the sub-continent. As Delhi is caricatured for its politicians and bureaucrats, so is Gujarat known for its traders. Even Mahatma Gandhi, its most famous son, was a member of the "bania" or trader caste.

As economic liberalisation has created more business opportunities, Gujarat has drawn on its traditional strengths to become one of India's fastest growing states.

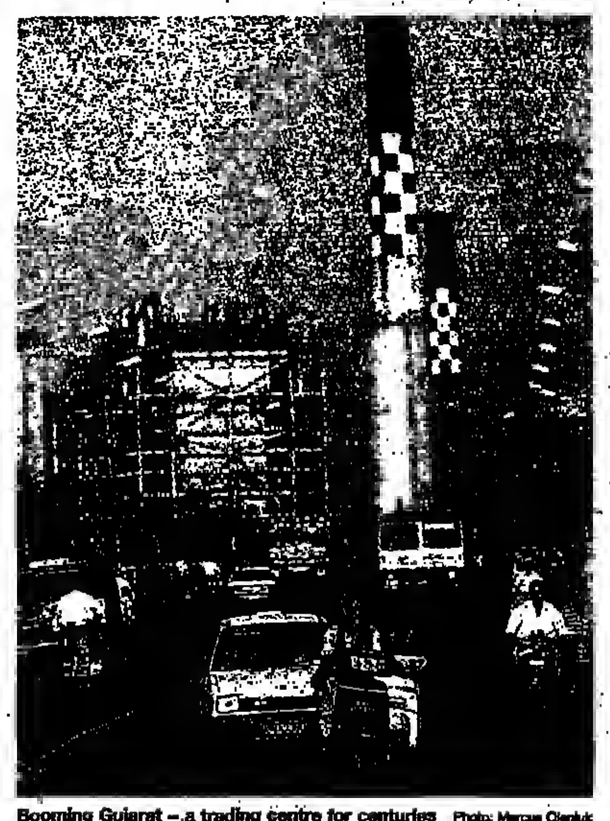
It has been in the forefront of the increased competition among Indian states for investment and, in the process, has become a model for more laggard regions.

It is experiencing a surge in investment, which is expected considerably to expand its industrial and infrastructural base.

Gujaret had Rs1216bn in funds "on hand", that is earmarked for investment projects sither under way or already approved, in February, according to the Centre for Monitoring the Indian Economy. Only industrialised Maharashtra, with an equivalent of Rs1340bn, and Karnataka, home of hi-tech city Bangalore, witb Rs1286bn, exceed this.

Despite having just 4.8 per cent of the population, Gujarat accounts for 11.07 per cent of investments on hand for all Indian states. Responsible for 10 per cent of India's output and 16 per cent of its exports, it bills itself as the second most industrialised region on the sub-continent.

But for the Gujarat government, this is only the beginning. "We are in haste. We are in a hurry to develop the state," says Mr Dilip Parikh, state industries minister and a prominent local businessman.



Booming Gujarat – a trading centre for centuries Photo: Marcus Oleniuk

One eign of ths government's zeal has been a $250m loan negotiated with the Asian Development Bank (ADB) to support wide-ranging financial restructuring. The loan was the first direct ADB assistance to an Indian state. The bank chose Gujarat because the reforms were expected to take hold there – and provide a model for other states.

Although India's central government began economic liberalisation six years ago, the states have generally been slower to change. The restructuring planned by the Gujarat government is a long way from Thatcherism, but it is radical for an Indian state government and will inevitably set a precedent.

Gujaret plans to sell its holdings in a plethora of state-ownad companies. It floated 25 per cent of Gujarat State Financial Corporation last year and has invited bids for 51 per cent of two other companies – Gujarat Tractor and Gujarat Communications and Electronics. Others will follow.

A sign of the government's enthusiasm for reform came with the closure of the loss-making Gujarat Textilas Mill, which resulted in thousands of redundancies.

The government intends to impose tighter bndgetary restrainte to rednce the state's fiscal deficit from 4 per cent of state output to 2 per cent within three years. It also plans to increase tax by simplifying the state's complex tax structure.

State officials ssy the intention is to direct funds away from areas that do not require government involvement to eervices such as health, education and infrastructure.

The building of such economic strengths conld hardly have been predicted when the region was formed by the division of Bombay state into Maharastra and Gujarat in 1960.

Gujarat, as official literature likes to point out, was left with little commerce and industry. The economy was primarily agrarian and the only industrialised pockets were at Ahmedabad, the capital, Baroda, Surat and Rajkot.

What industry there was focused on textilas. Gandhian-inspired socialist policies did little to encourage further development. For much of its early life, Gujarat continued to drift behind the rapidly-growing Bombay, with its big port and established business community.

The state has few natural advantages, apart from a 1600km coastline and strategic proximity to the Middle East and northern India. A dry, sparse region, it suffers from acute water shortages and lacks nearby fuel or energy sources.

Now it boasts a broad-based economy with strengths in petrochemicals, pharmaceuticals, manufacturing, fertilisers, textiles and chemicals. It is also one the biggest internetional centres for cutting small diamonds and has one of the world's biggest shipbreaking yards at Alang.

Mr Shankersinh Vaghela, chief minister of Gujarat, says one of the main reasons for the industrial turnaround was the state's business culture.

Like the Marwari people in Rajasthan, Gujaratis were forced to trada by a climate that made cultivation of the land difficult. Their trading has taken them around the world, making them one of the most widely flung communities in the Indian diaspora. From Hounslow to Harare, you will find Gujaratis.

Traditionally, the Gujaratis have dominated the stockbroking industry in India and produced some of the country's most successful businessmen.

One of the most famous local entrepreneurs is Mr Dhirubhai Ambani. Starting out as a petrol pump attendant, Mr Ambani took 30 years to build his company Reliance Industries into a petrocbemicals-to-textiles conglomerate with gross annual sales of $1.84bn. Along the way, he was credited with helping to spur the deveinpment of an equity culture among retail investors in India in the 1980s.

As well as the entrepreneuralism of its people, Mr Vaghela points to a political consensus to pursue reforms as e key to the stete's growth.

He also says stable labour relations have attracted industry to the state from more strike-prone regions.

The basis of this stability, he argues, is Gujarat's prohibition laws on alcohol.

The prohibition laws are Gujarat's most obvious legacy of Gandhi. To get a legal alcoholic drink, most locals have to cross the border.

The state is sober in other ways, too. The lifestyle in cities such as Ahmedabad is relatively good compared with Bombay, but the atmosphere is sedate and many young people leave for the racier climate of the Maharashtran capital.

While some locals are leaving, foreigners are coming in. Like other states, Gujarat is wooing foreign investors with financial incentives and promises of speedy regulatory clearances. It has had some success, with companies such as General Motors, Hoechst, Glaxo, ABB and GE Plastics setting up plants.

Gujarat will require more foreign funds, however, to meet its mounting infrastructure challenges. Mr Pradip Shah, chairman of Indocean Ventures and a co-author of a Gujarat government-commissioned report that laid tha foundation for the ADB loan, says solutions to sbortages in power, fuel and water will need to be found if the state is to continue to maintain its current growth.

The government plans to increase installed electricity generating capacity from 6,238MW last year to 15,000MW in 2000 to meet demand, whicb is growing by 12 per cent a year.

But much will depend on the fate of the long-delayed and controversial Narmada Dam project on the border with Madhya Pradesh, designed to provide both power and water to the state. The dam has faced more than a decade of environmental protests – particularly over the number of villagers in Madhya Pradesh and Gujarat who face displacement by the dam's waters.

The project remains embroiled in a long-running court battle between Gujarat and Madhya Pradesh over the height of water m the dam. The higher the dam, the greater the number of people in Madhya Pradesh who will be displaced.

"If the Narmada Dam goes through, we will become the number one state," Mr Parikh says.

Meanwhile, the Gujarst governmant continues to develop large tracts of industrial zones to attract investors.

It also plans a drive to develop ports around its coastline, inviting foreign and domestic investor participation. Many observers believe this represents the future of Gujarat in the long run – as a trading gateway to India.

STOCK MARKETS • by Tony Tassell

Culture change on Dalal Street

Bombay's bourse has a fight on its hands to win back business lost to National rival

Until the early 1990s, the best gauge of the Indian share market often used to be the crowds around the Bombay stock exchange (BSE) in Dalal Street.

In good times, thousands would gather in the street to feel the market pulse, swap gossip around food stalls, and attempt to place an order with a broker in the dilapidated warren of offices in tha shadow of the tall tower of the BSE.

In a city more obsessed than most with making money, Dalal Street could lay claim to being the heart of Bombay. That the thronging crowds have now largely gone from the street is a testament to the degree of change that has swept over the exchange during the last two to three years.

The old trading floor of the exchange has been replaced by a network of computers, and the bourse'e and its members' one-time dominance of the Indian capital markets has been lost irrevocably.

Foreign brokerages with emart offices away from Dalal Street now sway the market, and the newly-formed, screen-based National stock exchange (NSE) bas overtaken the BSE in trading volumes.

The new exchange was set up in late 1992. The government and market regulator, the Securities and Exchange Board of India (SEBI), had long heen frustrated with the pace of reform and modernisation at the BSE, which claims to be oldest bourse in Asia.

At that stage, the BSE had become an anachronism in a modern financial system. Trading took place for only two hours a day on an open outcry basis, there was little transparency in operations, price-rigging and other scams were rampant, and investors generally received poor treatment.

As only so mnch trading could take place in two hours, many investors had difficulty evan placing orders. Then, if successful, there was little indication of whether they received a fair price, and tha notoriously slow transfer of share certificates could take months. On top of this, the risk of "bad deliveries" – where share transfers are rejected – was high.

The flaws in its regulatory and supervisory framework were also exposed by the 1992 Bombay securities scam, which involved the siphoning off of funds from the interbank money market for speculation in the stock market.

The many critics of the BSE claimed the bourse was being run as a bureaucratic brokers' club where vested interests slowed the pace of change. Whatever the truth, the BSE was unprepared for the revolution brought about by the NSE.

The National exchange started equity trading in November 1994, using a screen-based system. Within 11 months, trading volumes on the young upstart were ontstripping the older bourse, which also made a late but rapid shift to electronic trading early in 1995. Now NSE trading volumes are more than double those of its rival.

NSE officials say nowhere in the world has a new bourse overtaken an established exchange eo quickly. The new body, which is owned hy a series of Indian financial institutions, has also taken the lead in making structural reforms to the market under an agenda to improve tbe lot of the investor.

It introduced regular weekly settlement cycles, started the first clearing corporation in the country in April 1996, and in June that year moved to guarantee trades from counter-party risk.

In December last year, the NSE launched the country's first share depository, finally bringing paperless trading to the sub-continent.

The NSE has also expanded aggressively around the country – much to the chagrin of Bombay, which until recently was not allowed to do so. The NSE now has brokers in 145 Indian cities connected by satellite and by the end of 1997 the figure is expected by its officials to climb to 200.

Mr RH Patil, managing director of the NSE, says this will bring significant long-term benefits for the Indian capital markets by widening the investor base. "We hope it will bring an equity culture to parts of the country where it has not existed previously," he says.

A similar expansioo is et the heart of a comeback planned by the BSE under the helm of its confident president, Mr MG Damani. He says the exchange is now ready to expand its Bombay Oo-Line Trading (Bolt) system around the country after meeting conditions laid down by the SEBI, the market regulator, including offaring connter-party guarantees for trades.

Tha BSE, which etill traded under a Banyan tree in Dalal Street as late as 1978, plans to expand to 82 cities within the next two months and progressively to reach more than 400 centres during the next two years.

Mr Damani eays this should provide a "level playing field" for the BSE to compete with the NSE and increase sales volnma. He says that by March 1998 the exchange will bave overtaken the younger boursa with a targeted increase in sales volume from a daily level of about Rs6bn to around Rs20bn.

Mr Damani admits tha BSE had been slow to change in the past but that "it is all history". He adds that by 2000 the Bombay exchange intends to become a fully-fledged international operation, trading from the Middle East, London, New York and Asian financial centres.

Sceptics, however, remain doubtful. Mr Harshad Mehta, a near-legendary broker in Bombay says the BSE will continue to trail behind the professionalism of the NSE. "They are still too slow to respond," he says.

Even if the BSE does rise to meet the challenge, much of the old culture of Dalal Street will have been eroded for good. As in other countries where screeo-based trading has been introduced, much of the personal contact between brokers is lost.

The influence of the old-style, independeotly operating, BSE broker has also declined dramaticaliy over the past few years. They have found it difficult to compete for institutional business against foreign brokers with large research departments and deeper reserves of capital to fund trades.

Still, not even the most stalwart BSE brokers would argue that the increased sophistication and professionalism of the Indian market over the past two years has not been good.

"We miss the emotion and commotion of the trading floor and the chance to meet friends, but that is about all," says Mr Rakesh Jhunjbunwala, a prominent BSE broker and Bombay's highest individual taxpayer last year.

"Things have changed for the better."

The Bombay stock exchange: ready to expand Photo: Marcus Chetdi

ESSAY COMPETITION

My vision of India

What will India be like 50 years hence? The FT asked Indian schoolchildren to submit their views for an essay competition, the prize being publication in this survey and a computer for the winner's school. Below we excerpt the winning entry, from 15-year-old S.Rajiv at Chettinad Vidhyashram school in Madras.

I have a dream. I dream of an India 50 years from now where the people rule, not the politicians, where hunger and unemployment are forgotten words, and above all, where citizens are proud to be Indian.

I dream of a land where buffaloes roam the pastures and not the roads, where people remember and respect their vibrant culture, and do not dare to ask "Mahatma who?"

I have a nightmare, too. I fear for an India where corruption is a way of life, divided by communalism, with congested roads and drains and a population which continues to explode.

I fear that India will become a land of bribery, corruption, nepotism and other such evils which can ruin a country's financial, administrative and social fibre. These problems have only one cause. It is not over-population, corruption or even lack of education. It is attitude.

To change and improve a country, the people must change, and people change if their attitudes change; attitudes to work, the country, the man next door, the buffaloes on the streets, the sleazy bureaucrats, politics, the west and life in general.

Things are not as bleak as I make them out to be. Already tentative steps are being taken towards a bigger and better tomorrow. More scams are being exposed, more bridges are being built, more of the guilty being brought to book and more food is being put into mouths.

To achieve something we must have a fixed objective and we must set our sights firmly on our goal and strive towards it, because the following half century can make or break India.

We may never see India in 2047, as we are permanently toying with the omnipresent threat of nuclear war. If India is able to survive the test of time and nuclear warheads, this is how I would like it to be: a self-reliant nation which will aspire to be a superpower in every field.

A modernised railway and superhighway system will cater to India's monstrous transportation needs. India will have an extensive network of...

"Wake up!" my typical self nags, "Superpower? Network? Where do we get the money? The knowhow?" I realise he is right.

India is not a land of supertrains, it is a land of 960m people. We are our biggest resource. A resource which has long been wasting, a resource which has been neglected and been regarded as a liability, and a resource which will lead the way for us into the next century.

To improve the quality of our human resources pool, the brain drain is the one leak we must plug. If patriotism cannot hold people back, the lust of money must.

Indigenous brainpower and manpower hold the key to our nation's prosperity as they will bring in the required monetary aid from the investment hungry multinational companies. Politics will play a large role in how our nation will shape up.

We live in a time when a politician can say: "I came, I saw, I corrupted," and get away with it. Indian politics should undergo a sea change to meet the challenges and demands of modern India. What naughty, dirty politics requires is a whack in the right place and a good, clean scrubbing.

We require a new breed of leaders with new thoughts and ideas to grease the wheels, and not the palms, of this nation.

"But I am not running the government," says the irritating voice. What should I do about all this?".

I am not going to suggest that we should go out into the streets with placards and start a *Bharat Bandh* (national demonstration) in typically Indian fashion, partly because it is a colossal waste of time and effort and partly because I belong to the new generation who find that sort of thing too lowly for their doing.

Our purpose would be better served if we honestly fulfilled our duties and exercised our rights, and if we made ourselves aware of the factors and faces which will affect our country, so that when election time comes along every five years, when the politicians are brought back down to earth, when power is snatched from their hands and is thrust into ours, then we can ensure a future we do not regret living in.

Now I can just wait, wish and work towards a day when my dreams are transformed to reality, when food is not a luxury, liquor is not a necessity and peace is not a rare and expensive commodity. A day when travel is not torture, bribery is not a part of administrative procedure and poverty is not a pre-requisite for Indian citizenship.

A day when each and every Indian can proudly look at the progress his country has made and say: "I came, I saw, I contributed."

INTERNATIONAL TECH PARK

A US$86 million infrastructure project that marries Singaporean efficiency with the educated labour pool of the India sub-continent is now unveiling in the Indian city of Bangalore.

Already renowned as a hi-tech oasis, IBM, Hewlett Packard, Motorola and Texas Instruments are among companies rooted there - Bangalore is the chosen centre for India's first world class business park. The first offices and production facilities of the new International Tech Park will be ready for occupation by the end of June, and by the year 2000 a modern self-sufficient satellite town will have fanned out from this nucleus.

The seed for the emerging venture was originally sown by Indian Prime Minister PV Narasimha Rao and Singaporean Prime Minister Goh Chok Tong, at an international forum in 1992.

The Chairman of India's Tata Industries, the country's biggest conglomerate and owner of a 40 percent slice of the Park, plus a delegation of Singaporean business executives, next visited Bangalore in July 1993. By January 1994 ambitious plans were being pasted to the drawing board.

Partnering Tata are a consortium of five Singaporean industrial and technology park developers, construction, architectural and financier groups, combining to also take a 40 percent holding - Arcasia Land, Sembawang Industrial, RSP Architects Planners & Engineers, L&M Group Investments and Parameswara Holdings. The investment arm of the local Karnataka government, the Karnataka Industrial Areas Development Board, owns the remaining 20 percent.

The appeal of the location has beeo enhanced by the pro-business approach of this government, according to the Chairman of Singapore's Economic Development Board, Philip Yeo, who lead the Singaporean delegation in 1993. This will see Bangalore firmly establish itself as a key investment location in India for high-tech companies - from multinationals, foreign companies and local ones like Tata, he believes.

The state's Indian Institute of Science and numerous other colleges and training institutes have contributed to the concentration of IT and electronics industry expertise in this region, with 6,000 of the 20,000 skilled professionals wbo annually join the workforce in Karnataka so trained. With a higher literacy rate than the national average - 56 percent - and English the accepted business language. Bangalore made excellent business sense, from the perspective of the Singaporean investors.

Strolling around the resulting business park it is hard to imagine it is India.

More accurately, International Tech Park is 68 landscaped acres of self contained efficiency, soon to provide a working environment of enviable international standards to 15,000 professionals. The Singapore Science Park, South East Asia's premier R&D hub and owned by consortium partner Arcasia Land is the model.

The input from the City State in designing and managing the Park to a high standard, coupled with its influence internationally, is a perfect complement to Indian skills and overseas cootacts, believes Chairman of Tata, Ratan Tata.

This means modern air conditioned office space, reliable electricity supply, effective telecoms connections through indigenous high-speed satellite links and therefore 1,000 telephone lines instantly available.

Tenants are meanwhile assured a seamless move through a central managemeot office. Not ooly can they practically "plug-in" and start work, they can also plug in to a network of approved support services - from financial institutions to recruitment agencies.

Cleanliness and round-the-clock security will additiooally provide a pleasant atmospbere for both work and leisure, the management hopes. A fitness clnb and other recreational amenities for employees and their families will be ready by the end of 1997. By 2000 the cooveniences of modern shopping, banking, medical facilities, cbild care, and 300 well appointed apartmeots, will transform the Park into a relaxed community on the fringes of frenetic city life.

Despite the advantages of this easy environment, the sights and exotic smells unique to the sub-continent and the bustle of city-living in Bangalore are as easily accessed. Free shnttle services throughout the day will connect the Park's occupants to the heart of the "Garden City", just 18 kilometers away.

The Park is also positioned en-route to the city's airport, with its many internal links as well as direct daily flights to Singapore. Beach getaways in Goa and Kerala are within an hour's flying time, and the cool of Southern India's famed hill stations are an easy drive.

For ambitious businesses keen to springboard into some of the East's most promising of markets, the new International Tech Park could be the passport. Certainly, it's seen as a major debut cooperation between Singapore and India. *"I hope it will be the fore-runner to many future ventures between our two countries,"* adds the Tata Chairman.

STYLE • by Pankaj Mishra

Satellite barricades

Modern, urban society has found it all too easy to identify with western values

In an advertisement for an Indian brand of chewing gum seen on the Murdoch-owned Star TV satellite channel the viewer is presented with a rapid series of images. We see a swimming pool; hear the screams of a drowning man; watch the lifeguard, in a red swimsuit, cut through the poolside crowd, Baywatch-style life-preserver in hand, dive into the pool and reach the drowning man in a couple of rapid strokes ... but here the script deviates from convention.

It is not the man she rescues, but the packet of chewing gum in his pocket. Fortunately, the man doesn't drown. He claws to the surface coughing water while the pretty lifeguard greedily opens the packet of gum, turns to the viewer and with a conspiratorial wink says: "So, what?"

It is possible to see this ad simply as the work of a new breed of witty copywriters in Bombay and New Delhi and interpret tbe lifeguard's beartless actlons as reflecting the selfishness of India's modernising society.

But while the ad is open to such interpretations, it perhaps represents a less easily understood aspect of contemporary India.

Six years of economic liberalisation has led to a cultural revolution in India, at least in the main towns and cities.

The revolutionaries are members of the new middle class thrown np by the reforms – chiefly, salaried professionals in the services and manufacturing sector, independent entrepreneurs, self-employed lawyers, journalists, designers and doctors.

Their barricades are the 30-odd satellite TV channels that have sprung up in the past six years and are now available across India, along with innumerable new glossy lifestyle and fashion magazines and newspaper supplements.

Speculations abont the size of this class vary from the 200m trotted out to lure foreign investors, to the more realistic-sounding 80m. Most of this class are the children of independent India, born well after 1947. This is a little regarded fact, but one which sheds much light on the state of contemporary Indian culture.

Every nation in Asia and Africa has experienced the moment in its post-colonial history when the clear idealism of its beginnings has withered, and deeper, lesa visible realities have risen to the surface. For India, that moment came with the declaration by Mrs Indira Gandhi of the "Emergency" in 1975.

What we know now as the new middle class was then still in its infancy. Consequently, the unique victories of the freedom movement, the cultural pride of Nehruvian India, touched this generation very little, compared to an older generation of edncated Indians.

In fact, this generation came of age during the Indira-Rajiv Gandhi years, when the political and cultural legacies of the Nehru years were in the process of being systematically and cynically undermined, and replaced with – well, here probably lies the crux of the matter.

Already disconnected from traditional sources of culture, particularly in the cities, this new class had little with which to bolster itself against the chaos that followed the sudden collapse of Nehru's genteel-bourgeois standards of politics and culture – which partly explains how the Hindn nationalist party, the Bharatiya Janata Party, grew in strength during this period.

Thus, when the Indian economy began to be liberalised in the early 1990s, and India was exposed to the modern world after decades of protectionist isolation, it soon became apparent that no realm of Indian society was as vulnerable to foreign encroachments as the one where Nehru's secular Anglican-Brahmin ethos had been unsatisfactorily replaced by some half-digested Hindnism.

The stage was set for Rupert Murdoch, and he did not fail to arrive on time. He identified the new class's cultural needs by looking at tha success of other Indian cultural entrepreneurs – whom he proceeded to buy out in his usual manner.

Tbus, Baywatch and Oprah Winfrey came to the land of the Mahabharata and the Ramayana religious epics, both of which, though shoddily produced, had been the two most popular TV shows before the advent of satellite TV.

Now, after six years of Pamela Anderson and Oprah, Indian urban culture is in the process of thorough, unchallenged Murdochisation. From time to time there are protests, often from the more eager vendors of Hindu nationalism, bnt their impotence is betrayed by their own leaders.

This was demonstrated, for example, when Mr Bal Tbackeray, the Hindu nationalist leader of the Shiv Sena party in Bombay, publicly snpported the organisers of the recent and controversial Miss World contest in Bangalore, and when he became the unofficial sponsor of Michael Jackson's first tour to India earlier this year.

Some academics, mostly in British and US universities, claim that Indian culture with its time-tested talent for synthesis will learn to deal with this latest foreign invasion on its own terms.

But Indian culture is no longer coherent, let alone the formidable force some of these optimistic academics suggest it to be. Certainly there is not much hope to be found in the spectacle of Apache Indian, the Indian rap singer, or the pidgin Hindi crooners on MTV, which are examples of cultural disjointedness rather than creative synthesis.

India's encounter witb cultural and economic modernity has come at a time when it is feeling particularly vulnerable. The regular exposure, through the visual and print media, to western lifestyles, which are models for millions of Indians, has indoced deep feelings of anxiety and inferiority among the modernising class.

"Are you up to it?" mocks an advert for the new Indian edition of Cosmopolitan – a great success since its launch last year, particularly among npper-middle class professionals and housewives – and a large number of people seem to feel that they aren't quite.

Hence the sudden rise in the number of agony aunts in the media – the television chat shows and newspaper columns devoted to resolving sexual problems; the fashion, beanty and lifestyle glossies whose names (New Woman, Gentleman, Oomph, Verve) provide a glimpse into the deeper desires of Indians for style and statns; the short-skirted girls and gym-toned boys that eye eacb other np at Delhi's recently-opened McDonald's and TGI Friday's restaurants.

Hence, too, the attempts at London-style cool by the English-language dailies that – in a country where sligbtly less than half the population lives in absolnte poverty – are obsessed with South African food festivals, Greek-American pop stars or fashion designers. (A recent feature in the Times of India focused on a haute conture collection inspired by the "sartorial elegance" of India's freedom fighters.)

Thus, the chewing gum ad is not so much a reflection of the selfishness or ignorance often ascribed to the upwardly mobile classes in the developing world, but a desire to be "with it" and and acquire the afflnence and glamour of the first world.

● *Pankaj Mishra is the author of Butter Chicken in Ludhyana: Travels in Small Town India.*

Tuned in: Satellite dishes pulling in signals for some 30 TV channels dominate skylines

MARUTI • by Rohit Jaggi

Young, upwardly mobile and heading for scrapes

Drivers squeeze into the smallest gaps and jockey to be first from the lights

"It's a freedom machine," says Naveeo Khanna, 18, brushing cigarette ash from his leather jacket. "I can get anywhere in Delhi faster than anyone else."

Mr Khanna, lounging in New Delhi's trendy Defence Colony market, is talking about his Maruti, the car of choice for the rich kids, clad in tight jeans, who hang out at the market.

Tbeir cars sport huge stickers with slogans such as "Copa Cabana" across the rear window. Self-adhesive tinted-window film bnbbles in the heat. Radios blast out the top Hindi hit songs.

"My car may have been bought by my parents, but its personal touches tell everyone who I am," Mr Khanna says. It is not only the young rich who own Marutis. Most of the shopkeepers at Defence Colony market own them, too.

Twelve years after the launch of the first 800cc ultra-compact model, the Maruti has become a symbol of the new urban India. According to many Delhiites, business in the city has grown more brash, more forceful and more competitive in the past decade.

As an entry-level car, the Maruti has become a badge of the wealth which the new business ethic has generated.

Ms Poonam Sharma, a sales executive at Delhi car dealer Sikand and Co, says: "Customers are all sorts – middle class, rich, teenagers. Twenty-five per cent of my own customers are teenagers."

Mr Satisb Sharma, a photographer, says: "Many Delhi households have one car for each member, most of them Marutis. They are given to children as 18th birthday presents. It's the last car I'd buy. It has become a status symbol, and responsible for much of the congestion and chaos on city streets."

Maruti drivers pilut them much like scooters, squeezing into the smallest gaps in the traffic and jockeying to be first away from the lights. "Tbe nonveau-ricbe drive like they do business – aggressively, exploiting every opportunity, wanting to be at the head of the quene," says one businesswoman.

Marutis' good acceleration, combined with the cavalier manner in which many of them are driven, gets them into trouble.

"The Maruti is a very flimsy car, especially the 800cc. In the event of an accident, even a minor one, the car gets badly injured, as well as the passengers inside," says Mr Som Sikand of Sikand and Co. "Denting centres" (bodywork repair shops) are never short of business. Four people die each day on Delhi's roads.

The flimsy Maruti marked the beginning of a powerful cultural change as one of the first products in India to encourage conspicuous consumption.

Maruti Udyog was set np by the government as a 50:50 collaboration with Suzuki of Japan. Although it started by assembling Japanese-made components, its vehicles now have 95 per cent local content by value. The company's focus oo low-cost production has deterred other companies from trying to compete with it. The wave of post-liberalisation rivals bave been forced to aim higher up the price range, leaving the road clear for the Maruti to keep its dominance in Indian drivers' everyday fight with bullock carts, bicycles, elephants and camels.

"The cars are good value for money, they are fuel-efficient and they retain their value," says Mr Rahul Khosla, a banker. "They have transformed people's perception of affordable transport. They're a first-car-buyer's dream and belp people graduate from two-wheelers."

Maruti has 70 per cent of the domestic new car market. It has sold more than 1.65m vehicles, most of which are still in use. "In India we don't have the concept of disposal of vehicles," says Mr Arun Arora of Maruti.

It is in Delhi that Marutis are most in evidence. According to Professor H.B. Mathur, an expert in traffic flow and alternative fuels at the Indian Institute of Technology in Delhi, a new vehicle is registered in the capital every two to three minutes.

"In most western cities a minimum of 25 per cent of urban areas is roads," says Prof Mathur. "In Delhi the figure is 15 per cent and there is virtually no mass-transit system. As a consequence the average speed of traffic is 15kmph. If nothing is done, the time is not far off when vehicles will be bumper to bumper."

Cities are paying the price in pollution. India's main urban areas have grown so fast that they have swallowed up polluting industry that was once on their outskirts, but 65 per cent of pollution in Delhi comes from vehicles – 1,300 tonnes of it every day, including 810 tonnes of carbon monoxide.

In winter a pall of smog hangs over Delhi. Visibility on the constantly busy ring road is often down to the levels of 1950s London pea-soupers. Asthma cases are surging.

When Mr Sharma moved to Delhi from Bangalore in the early 1980s be hoped that the relatively clean air in the capital would be good for his asthma. "At first everything was wonderful, it was a garden city," he says. Within two years the Maruti was launched and with it came an explosion in the car population, and pollution.

Maruti originally aimed to wean Indians away from the omni-present scooter. But this hope foundered when the Maruti's launch price of Rs55,000 turned out to be twice that of its target. Now the gap has widened, with the cheapest scooter costing about Rs22,000 compared with the basic Maruti 800 at more than Rs220,000. The country's 3.48m cars last year were no match for the 22.7m two-wheelers. Still, India's burgeoning city-based middle class bas an insatiable appetite for cars.

In Defence Colony market the shopkeepers graduated to Marutis from scooters as they became more prosperous. Most agree that they do oot want to drive anything else. "I like the way it moves – it's manoeuverable," says one. Anotbcr adds: "It's cheap, easy on petrol, looks good and it's trouble-free."

هكذا في الاصل

FILM INDUSTRY • by Tony Tassell

Bandwagon has a wobbly wheel

In Bollywood, one lanky screen hero has towered over all others since the early 1970s

Turn on Indian television any time of the day or night and the odds are that you will see him: Amitabh Bachchan, the Big B, the undisputed number one star of Bollywood since the early 1970s, and one of the biggest in the world if measured by the number of his fans.

There have been other Indian actors who have generated hysteria, and regional stars who have become near-deities in their home states. But none has lasted longer in the limelight, or had more impact on India and its films in modern times than Bachchan.

Now entering the twilight of his career, this legend on the sub-continent is facing his biggest challenge yet – defying cinematic mortality.

The actor who broke the mould of the romantic hero for Hindi films by playing the physical, angry young man is growing old in a harsh industry where yesterday's box office hero can become a has-been overnight. Still, if anyone can defy the odds it is Bachchan.

Westeners would find it hard to imagine just how big a star he is on the sub continent. In a era-defining career of more than 100 films, Bachchan has churned out one celluloid hit after another, including the biggest blockbuster in Indian history, the 1970s breakthrough *Sholay*.

Along the way he developed a unique relationship with India, possibly akin only to that of Elvis Presley at his peak. Even in the remotest village, or the depths of the poorest city slum, there will always be someone who can do an impersonation of Bachchan's famously resonant voice.

When Bachchan suffered a near-fatal injury in 1983 during the filming of a fight scene for the film *Coolie*, the country virtually came to halt to pray for him as he struggled for life in hospital.

Newspapers carried front-page bulletins on his health, and after Bachchan's recovery *Coolie* became a smash hit complete with freeze-frame headlines during the fight scene to inform the audience that this was where the Big B was injured. Audiences would cheer wildly when the "villains" who injured him were subsequently vanquished. The scene can be seen on the internet.

Bachchan retains such a following – he cannot walk a street in India without being mobbed – but is now facing increasing criticism.

After a self-imposed sabbatical, Bachchan has released his first film for five years, *Mrityudatta*, which roughly translates as Angel of Death. The so-called comeback film has been widely derided by a scathing Indian press as a dated dud.

At the same time, the financial health of his fledgling entertainment conglomerate, Amitabh Bachchan Corp, has come under intense scrutiny. The company also ran into a flurry of controversy for producing the Miss World contest in Bangalore last year. It was beset by feminist protests.

It is not the first time Bachchan has faced criticism – he attracted flak during a stint as a politician. Now, however, there is a growing questioning about longevity of his box-office career.

If anyone is aware of his impending cinematic mortality it is the man himself. I met him in a hotel in Pune, in Maharastra state, just before the release of *Mrityudatta*. An interview with him at first seems like a audience. A regal aura seems to surround the man and the name.

When I am finally ushered into his suite after a day-long wait there is little pretension, however, as we talk while he is made up for shooting a new film, *Major Saab*. Without a hint of self-consciousness as an assistant applies a wig to a thinning patch of hair, and make-up to heavy-set bags under the eyes, he speaks frankly and self-depreciatingly about his career.

"I am now 55. I am on the wrong side of the hill and sliding. So obviously my acting career is very limited because of the fact that Indian audiences and Indian cinema do not patronise the aged," he says. "It is the younger person and the younger film that has prevailed and will continue to do so.

"So I will pull along. I will staple up my double chins and put colour in my hair til as long as it is feasible and then resign to sitting back and running ABCL."

It is not considered unusual in the West for actors of a similar age as Sean Connery and Al Pacino to play lead roles, even romantic ones.

But in the kitsch, action-packed world of Bollywood the roles are very different. A hero is required to not only dispatch a multitude of bad guys but also to chase tree-hugging heroines around mountain tops, dance with pelvic-thrusting phalanxes of sequinned extras and sing romantic songs to beautiful young film goddesses.

This is at the heart of Bachchan's dilemma. His great gift to India films has been to give his films a sense of conviction.

As a Bollywood star he is unconventional – too tall at more than 6ft and not as classically good-looking as some of his peers. He has, however, been able to carry off a great range of roles from the sensitive lover to the comic drunk and vengeance-seeker.

No matter how outlandish the films, Bachchan's sense of conviction in a role would hold them together even as he strode through them in one glorious fashion disaster after another.

As he ages, however, the lead roles of Bollywood become inevitably more improbable. The answer, of course, is create older roles for Bachchan but the scope for this is limited in the fixed formula of Bollywood.

"I don't think it has reached a stage here where opportunities are given for senior actors or even films structured around senior actors," says Bachchan. "There is potential, but audience tastes are just so different to the West. "Content-wise, commercial Hindi films have not been able to come out of given format – it is good over evil, song and dance, action and drama, family values, and everything in one big package.

"Anything that is more topical or more realistic does not fare too well. I guess that has been be the trend and that it will continue."

Bachchan, the son of an Indian poet, says he has tried to analyse Hindi films, and the closest answer he has come up with is that most of stories are reflections from the great texts of Hinduism, the Mahabharatta and the Ramayana.

"The Mahabharatta and the Ramayana are something every Indian from the villages to cities has grown up with. These stories never leave us and most Indian cinema is a manifestation of their themes, such as good over evil, the love for brothers and respect for elders, in a modern way," he says

"It is to credit of Indian cinema that it has never really transgressed the Indian ethos. It is prominently displayed in all our films and I sure our people want to identify with that in film after film.

"We in India tend to overlook the importance of what we are making, but when you go overseas and meet some of the Asian emigrants it strikes home. On several occasions I have had elders of a family come up to me and say 'Thank you for Indian cinema, because it has provided a link to Indian culture for the new generation which has grown up abroad'."

It is the Indian culture factor which Bachchan hopes will spur the growth of ABCL, after a "cash crunch" this year, as many of its initial projects come on stream at once.

The entertainment industry in India is still largely a disorganised affair with few integrated companies. With television in the country booming and the high music quotient in Hindi films, Bachchan says there is much scope for backward and forward integration of entertainment businesses.

In addition, he says the growing popularity of Bollywood films in overseas markets, ranging from Nigeria to the Middle East and the former Soviet Union, has been under-exploited.

Bachchan adds that unless the Indian industry becomes more organised, it faces the danger of being overwhelmed by the large entertainment conglomerates in the west.

"We have to get our house in order before it gets run over," he says. "We have to realise that our strength is that we know what is best entertainment-wise in India. We should shape, guide our cinema. A westerner would not be able to give the same ethnic input."

On the acting side, too, Bachchan plans to push ahead, with five to six films on the agenda. It will take only one of the films to really take off for the Bachchan bandwagon to roll on again.

"Those who write off Bachchan may be premature," says Mr Dinesh Raheja, editor of Movie magazine. "He is still the best actor we have."

On a screen near you: Amitabh Bachchan, seen here with actress Sonali Bendre, has appeared in more than 100 films

THE HIGH LIFE • by Shobha De

Bold, brash, brazen Bombay

Spend Rs40m on a wannabe wedding and there's one thing still missing - style

Glittering Bombay: Fairy lights, diamante and a touch of Cecil B de Mille Photo: Marcus Oleniuk

It was billed as the "Wedding of the Century" – by the hosts themselves.

The list of invitees, local and imported, was impressive – according to the press release. No expenses were to be spared – said the hosts' PR company. Therefore, the invitation card had to be awesome. And awesome it was – two well-built men were hired to deliver it.

The "card" was not supposed to be a mere tuppenny announcement. It was a statement that screamed: "This ain't no cut-rate wedding. This here is a super-production. The ritziest show in town".

The hostess was reported to be thrilled. "Nobody does it like me," she trilled during her weekly bridge game conducted on the wide verandah of her husband's pukka club.

Nobody really does do it like her. Nobody dares to. But what the hell, it wasn't every day she had an eligible son to marry off to a nubile heiress. The wedding card said it all: it was nauseatingly expensive and eye-poppingly spectacular – once you succeeded in actually locating it, lost somewhere in the silken folds of the artificial flower arrangement sitting on a silver tray.

Oh yes, the tray. It weighed 5kg (rival hostesses took the trouble to bring out the scales) and was itself positioned over a hollowed wooden sculpture containing an additional 5 kg of imported candies, a bottle of champagne and a "good luck" gold coin.

In February this year, there were 3,000 glittering weddings in the city of Bombay. Driving along Marine Drive – affectionately and nostalgically referred to as the "Queen's Necklace" – it was possible to pass five opulent open-air venues strung up with enough fairy lights to eclipse Elton John's party organisers.

Five venues, five different decors (Rajasthani fortresses with cardboard ramparts were big this year), five brass bands and five generator trucks outside to ensure a steady supply of electricity – all this on a narrow strip of land skirting the Arabian sea.

Whose weddings were they anyway? And just how much does one of them cost? Excluding the amount spent on jewellery, clothes and gifts, a conservative estimate would be Rs40m.

The hosts? Petty traders, small-time entrepreneurs, modest merchants – wannabes all. The new moneywallahs who love the finance minister, Mr P. Chidambaram, and bless him for "opening up the economy". He, whose recent budget permits them to splash out without worrying about a tax raid at dawn.

Indian weddings have always been festive, noisy, colourful occasions. Only these days they have moved beyond rowdy family affairs, and now resemble mammoth carnivals designed to rival Cecil B de Mille sets. They are put together by art directors who cannot control urges to stick plaster-of-paris Corinthian columns into hired football grounds.

All decadent self-consciousness, no real style. Beluga by the bucketful eaten greedily by bejewelled socialites with curry on their breaths. Guests dressed in luscious diamanté-studded robes floating around, miserably eyeing bigger and flashier baubles. Professional event managers orchestrating the whole affair.

The all-important trousseau shopping is no longer a joyous indulgence involving the bride, her mother and friends. It is left to whimsical dress designers who create over-elaborate outfits for the entire family at prices that begin at Rs1m and go up to Rs10m.

The bride and bridegroom have to have their "look" well in advance if they care about exclusivity. They also have to book their stylists and make-up artistes. Hair up, hair down? Streaked, bleached or natural? Matt or glossy? Locally-made make-up? Sorry, strictly Lancôme.

Once that has been decided, the mums-in-law get together to plan the real business, the banquet. A chef flown in from Cancun is *de rigueur* if you want your enchiladas real enough to compensate for the dubious margaritas. If Mexican isn't your taste, try Venezuelan, Brazilian, Colombian.

Everything, but everything has to be imported – and so what if the poor oysters are shrivelling miserably on their melting ice-beds in the mid-May heat. Duck, salmon, caviar, paté – who needs balti? Nobody. Not when there's enough Absolut vodka to float the QE2. Good marriages are made of platinum and gold, diamonds and emeralds. You can keep your blessed vows.

Dowry is officially out but does anyone have anything against gifts? Tiffany knock-offs? Cartier somethings? It's Harry Winston or nothing. Besides, grandma has been kind enough to pass on some of her antique trinkets – the ones she bought from a limp-wristed maharajah in dire straits. What, you mean the groom wants to wear them? Why not? If he can get his cheeks professionally rouged plus his eyebrows tweezed à la Liz Hurley, why not flaunt priceless pearls over his dull gold Nehru tunic?

This isn't ostentatious living, it's an accepted way of life. A flash diamond merchant has to establish his credentials in a society that otherwise treats him like any old dime store jeweller.

The investor flying in from London for the occasion will take it all in: the opulence and splendour. He'll scrutinise the crowd to see how many "names" the host has bagged. Chief ministers? Cabinet ministers? Big-league wheeler-dealers? Movie stars? Industrialists? Mafia dons? Foreigners in sharp suits? Antwerp traders? This man could be worth lending money to.

This is the new India – bold, brash, brazen. A bit too in-your-face for traditionalists who like their weddings downplayed, discreet and demure.

There is a grasping, frenetic edge to all this spending, because it is so "now". So new. So liberating. The amorphous middle class has more moolah today than their fathers could have dreamt of. They've made it, they want to spend it.

Anyone critical of such conspicuous consumption obviously hasn't discovered the joys of hiring a couple of elephants, half-a-dozen camels and 50 horses for a reception.

● *Shobha De is India's best-selling novelist and a regular columnist on Bombay society.*

INDIAN WRITERS • by Sudeep Sen

Now it's the Empire writing back

Salman Rushdie paved the way for a bold new style of Indian literature

When Salman Rushdie published his novel *Midnight's Children* at the beginning of the 1980s, he perhaps did not foresee the metaphorical implications the title would have in the coming decades for what is termed as "Indian writing in English".

Rushdie's was the first generation of Indian writers to use English as an Indian language, confidently and unashamedly, without any trace of the archaicism or imitation that formed the baggage of imperial and colonial India and which still showed itself in the literature even 30 years after the country's independence.

"Before Rushdie – and despite the presence of R.K. Narayan, Anita Desai and Ruth Prawer Jhabvala – India was regarded as a source of good second division fiction, much of it produced by British writers such as Paul Scott and J G Farrell," the Indian critic Pankaj Mishra wrote recently in Prospect magazine.

His provocative piece continued: "*Midnight's Children* changed all that. The novel was not only unlike anything ever written by an Indian writer, it was then the only novel of its kind in the English language, boldly multicultural, rooted in India and Indian storytelling traditions, but soaked in a generous unselfconscious cosmopolitanism that came naturally to an upper middle class Bombay dweller in the 1950s.

"Rushdie himself was a radically new presence in the world of letters, intensely political, encyclopaedically informed, formidably urbane."

In the mid-1980s, two new books further changed the literary terrain in India – Vikram Seth's novel-in-verse *The Golden Gate* and Amitav Ghosh's *The Circle of Reason*. Critically and commercially, nationally and internationally, these books became the benchmark for success for Indian writers.

Seth's verse-novel also marked the watershed for the modern movement in Indian poetry. Not only does this book figure on the centre-stage of the New Formalist Movement in America, but its prodigious success, followed by the even more overwhelmingly successsful novel *A Suitable Boy*, put new Indian fiction and poetry on the international map.

Against the backdrop of the interest generated by the new Indian novel and by long-established writers such as Narayan, Naipaul, and Desai, the 1980s and 1990s brought about a minor revolution in English-language Indian writing and publishing.

The international success of novelists Seth and Ghosh, along with Bharati Mukherjee, Rohinton Mistry, Upamanyu Chatterjee, Sashi Tharoor, Allan Sealy, Firdeus Kanga, Amit Chaudhuri, Sunetra Gupta, Vikram Chandra, Arundhati Roy and others, spurred the mainstream publishing houses in india such as Rupa, Harper Collins, Viking Penguin and Orient Longman, to take an active interest in young Indian novelists and poets.

The interest generated by the national media and a growing audience of book-buyers, has also helped writers gain a new-found status in India. Of course, one must admit, somewhat sadly, the interest in India and the

Continued on facing page

Arundhati Roy, whose first novel 'The God of Small Things' has been given a warm reception

Photo: Marcus Oleniuk

Continued from facing page

national success of many of these anthors came only after their international acclaim.

Amit Chaudhuri, author of two fine novels, *A Strange and Sublime Address* and *Afternoon Roag*, says: "Sometimes Indian writers are under pressure to produce what the West defines as what an Indian novel ought to be, what its destiny should be...a lot of it is market and pnblisher-driven – what prizes it might be suitable for.

"It is rather unfair to comment on a phenomenon that is so new. One needs a longer-term perspective, another 15 years perhaps.

"Mnch of all this is overhype. Take Tagore for example, he was a real superstar, but thankfully he wrote in a secret language, Bengali. The West judged him misleadingly on some rather indifferent translations, eulogised him and then literally killed him...India is a marketable entity, and has been for different reasons at different times."

But amid all the success, book-trade statistics and hype, there remains an unqnantifiable tension among writers and readers. Indian authors writing in languages other than English seem to feel marginalised in a national sense, even though they may enjoy huge reputations and book sales among their own language readership. The old debate as to whether English is a national language crops up every so often.

Another tensloo is the "expatriate versus local" syndrome. Some writers now either divide their time between India and abroad, or have moved abroad permanently. This is largely because there is still no scope for them to support themselvas sufficiently through their writing in India.

In tha Wast, the combination of the infrastructure of paid readings, appearances in literary festivals and conferences, creative writing, teaching and fellowships and residencies at universities, allow them the time and the resources to concentrate on a writing-related profession. For the more successful writers, this aveoue of pursuit is only just becoming possible in India.

India's professional literary climate is still in its nascent stages. There are no agents, hardly any professional literary editors, and no reading or festival circuit. Most of the hetter books are, more often than not, edited by the authors themselves.

Looking ahead, it seems likely two trends will begin to emerge.

One group of Indian writers will antomatically belong to the trans-national contingent because of their international success and their personal choice of location. The other group, no less successful, will choose to remain in India as a sustainable and viable infrastructure starts to take shape.

All in all, tha English-language Indian writing scene seems to be in good health. India is the third-largest Englliah-language publishing nation after Britain and the US.

Therefore, it is not unusual that a national intereat in indigenous contemporary Englliah writing has been firmly established, and is steadily making its presence felt internationally – a classic case of what the Indian novelist and columnist, Pico Iyer, called in Time magazina 'The Empire Writes Back'.

● *The author is a poet whose most receent published collection is 'Postmarked India'*

SOFTWARE DEVELOPMENT • by Paul Taylor

Bargain brains are high-power force

Software sector provides booming revenues in export and domestic markets

On Brigade Road, in India's southern city of Bangalore, clothes boutiques selling the latest western designer labels compete for attention with chic coffee bars and a Kentucky Fried Chickeo fast food outlet.

This is India's "Silicon Plateau" and the hub of a software development industry with revenues that continue to grow by about 60 per cent a year in spite of the slowdown elsewhere in the economy.

Tha young software engineers – men and women – who drive the industry epitomise the new India. They are well ednceted, smart and, above all, ambitious.

While some design silicon chips for US multinationals such as Texas Instruments and Motorola, others help fix the "Year 2000 problem" – re-designing mainframe computer programmes written in the Cobol programming language so they will continue to operate after midnight on December 31 1999.

Most are already familiar with Java, the language developed by Sun Microsystems which is set to revolutionise corporate computing and the internet. Many of them dream of setting up their own software operations and becoming the next Bill Gates.

These computer experts, most of whom are in their 20s and have electrical engineering degrees from one of India's prestigious Indian Institutes of Technology, represent an emerging elite of software professionals. They are a high-powered force behind the country's computer industry and a catalyst for change in traditional Indian society.

They work hard and at all hours, but they also know how to have fun. After work, programmers at Infosys Technologies, one of India's leading software development houses, and other companies headquartered in the "Electronic City" just outside Bangalore, head back to town bars and discos with exotic names such as Black Cadillac, Underground, and Nasa.

Elsewhere, on Mahatma Gandhi Road – now crowded with the software development units of companies such as Siemens, IBM and Cybercash – a software group that creates virtual money for use on the internet – other young programmers are still hard at work, logged on to host computers on the other side of the world via satellite.

Siemens was one of the first multinationals to recognise this potential. A software operation was set up in 1992 with just 14 people. Today there are more thao 330 employees, the majority aged 22 to 25. They are mostly recruited from more than 60 Indian universities, many based in the south.

Bangalore was famed as a quiet, civilised city because of its lush green parks and tree-lined avenues, but phenomenal growth has transformed it into an exploding metropolis of 5m people. But it is not the only city in India where the software industry is booming. New Delhi, Bombay and Madras also have hi-tech software pioneers, companies such as HCL Group, TCS and IIS.

Driven initially by exports and the perennial shortage of computer programmers in the west, India's software development industry has become the fastest-growing sector in the country.

According to the latest survey by the National Association of Software and Service Companies, exports rose 61 per cent between April and September last year to Rs18bn, while domestic software sales were up 62 per cent at Rs12bn, compared with a year earlier. The Delhi-based association expects exports to reach Rs38bn for the full year and the domestic market to reach revenues of Rs25bn.

The dynamism of the Indian softwara sector is reflected in the industry's rapidly-rising wage rates. A starting salary in an Indian software cumpany is about Rs11,000 a month, still oot enough to reot a flat but more than double an ordinary engineering job.

Indian software engineers still represent bargain brains when compared with their Californian counterparts. That helps explain why so many young Indian programmers leave to take up jobs overseas. The nttrition rate in the software sector is about 30 per cent a year. Of this 80 per cent leave for the US, where a good software engineer can earn t0 times as much as in India.

Indigenous Indian companies may not be able to match these wages, but they are emulating their western counterparts in other ways. Software engineers at Infosys operate flexi-hours – they can come and go at any time as long as they put in 45 hours a week.

The Infosys premises has basketball and volleyball fields, a health club and cybercafe. The offices are cool and bright, there is no dress code and no rigid corporate hierachy.

Several theories are put forward to explain why India has become such a successful offshore programming centre. Many Indians suggest that Hinduism has played its part. Three thousand years ago, Hindu vedics understood the solar system and had highly-skilled mathmeticians. They knew about differential equations and developed the concept of zero.

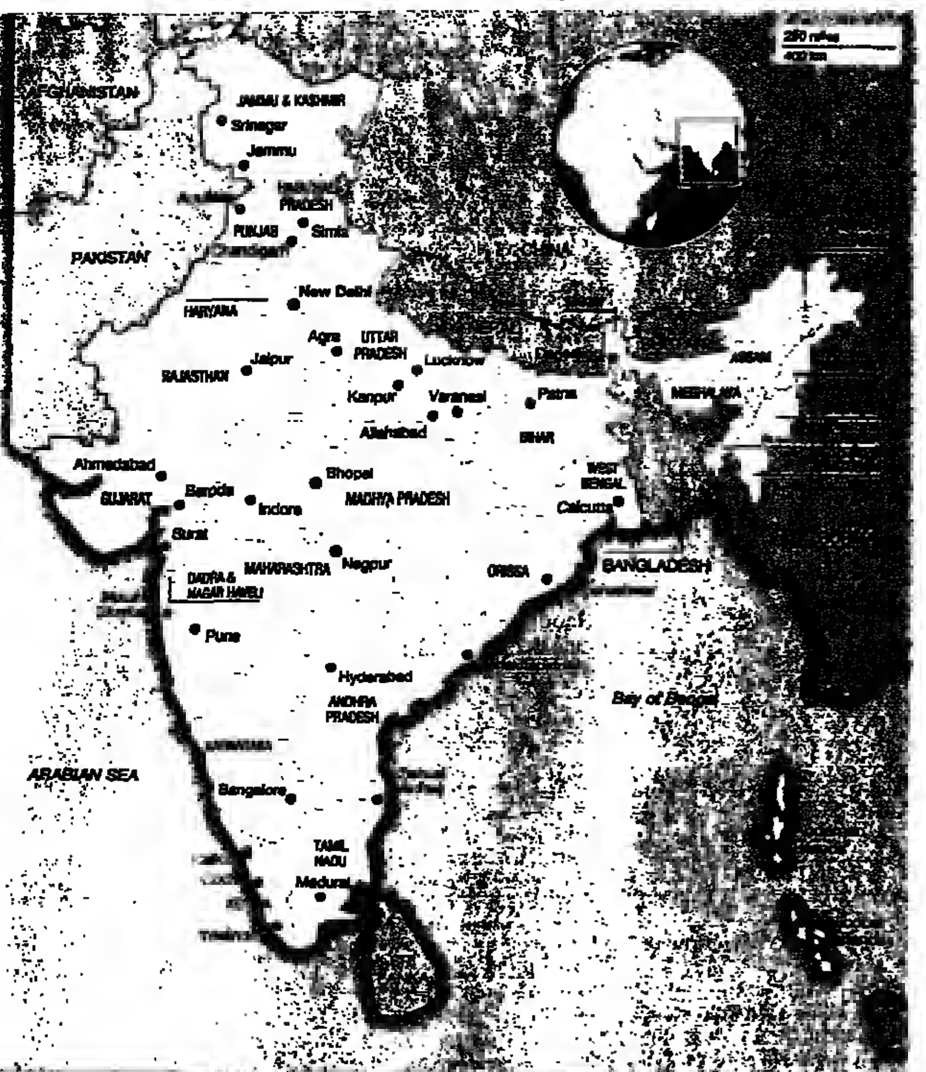
Software, it is suggested, has a lot in common with Hinduism – both require a systematic approach.

VISITING INDIA • by Alexander Nicoll

- **Area:** 3.3m sq km
- **Capital:** New Delhi
- **Population:** 973.5m (1997 est)
- **Main towns and population:** (million, 1991 census, total urban areas)

Mumbai	12.6	Hyderabad	4.3
Calcutta	11.0	Bangalore	4.1
Delhi	8.4	Ahmedabad	3.3
Chennai	5.4		

- **Languages:** National languages are Hindi and English but there are also 14 official regional languages
- **Religion:** Hindu (84%), Muslim (11%), Sikh (2%), Christian (2%)
- **Climate:** Large regional variations but generally hot tropical weather. Unpleasantly hot weather April-June. Monsoon rains in most areas June-September.
- **Measures:** Officially metric, although numbers are frequently written in lakhs (100,000) and crores (10 million)
- **Currency:** Indian Rupee (Rs) 1 Rupee=100 paise. Exchange rate per $: 1996 average $1 = Rs35.43; June 16 1997 $1 = Rs35.81
- **Fiscal year:** April 1 - March 31
- **Time:** 5½ hours ahead of GMT
- **Public holidays:**
  - Jan 1 New Year's Day
  - Jan 26 Republic Day
  - Aug 15 Independence Day
  - Oct 2 Mahatma Gandhi's birthday
  - Also major Hindu, Muslim, Christian and other religious holidays.
- **Entry requirements:** Valid passport. Visas required by all EU nationals.
- **Working hours:** Office hours: 0930-1700 Mon-Fri; 0930-1300 Sat. Bank hours: 1000-1400 Mon-Fri; 1000-1230 Sat
- **Telephone:** Country code (91) + area code
- **Electricity supply:** 220v AC, 50Hz



Political structure

Form of state
Federal republic, 25 states and six union territories

Head of state
President, currently Shankar Dayal Sharma, re-electable, elected indirectly by national and state legislatures

The executive
Prime minister heads Council of Ministers appointed from among elected members of parliament

National legislature
Bicameral; upper house, Rajya Sabha, 250 members (238 indirectly elected by states and union territories, 12 appointed by president); lower house, Lok Sabha, 543 members elected from single-member constituencies (79 seats reserved for Scheduled Castes, 40 for Scheduled Tribes), lower house has final authority over finance; Lok Sabha elections every five years

State legislatures
Uni- or bicameral, elected members, state governor appointed by president; state elections every five years

Legal system
Based on 1950 constitution and English common law

National government
The 1996 national election produced no clear winner.
The present United Front (UF) coalition came to power in June 1996, following an unsuccessful attempt by the BJP to prove a majority.
The coalition is made up of 13 different parties. It does not have a parliamentary majority and relies for its survival on the support of Congress

National elections
April and May 1996 (Lok Sabha); next elections due by May 2001

Main political organisations
- Indian National Congress (Indira)
- Bharatiya Janata Party (BJP)
- Janata Dal
- Communist Party of India (Marxist) (CPI-Marxist)
- Communist Party of India (CPI)

Sources: EIU; Europa; DHL Business Travellers Pocket Book; Ministry of Planning, New Delhi

States and territories

State	Capital	Area (sq km)	Population (Mar 1981)	Population (Mar 1991)
Andhra Pradesh	Hyderabad	275,045	53,551,026	66,508,008
Arunchal Pradesh	Itanagar	83,743	631,839	864,558
Assam	Dispur	78,438	18,041,248	22,414,322
Bihar	Patna	173,877	69,914,734	86,374,465
Goa	Panaji	3,702	1,007,749	1,169,793
Gujarat	Gandhinagar	196,024	34,085,799	41,309,582
Haryana	Chandigarh	44,212	12,922,119	16,463,648
Himachal Pradesh	Simla	55,673	4,280,818	5,170,877
Jammu & Kashmir	Srinagar	222,236	5,987,389	7,718,700*
Karnataka	Bangalore	191,791	37,135,714	44,977,201
Kerala	Trivandrum	38,863	25,453,680	29,098,518
Madhya Pradesh	Bhopal	443,446	52,178,844	66,181,170
Maharashtra	Mumbai	307,713	62,782,818	78,937,187
Manipur	Imphal	22,429	1,420,953	1,837,149
Meghalaya	Shillong	22,429	1,335,819	1,774,778
Mizoram	Aizawl	21,081	493,757	689,756
Nagaland	Kohima	16,579	774,930	1,209,546
Orissa	Bhubaneshwar	155,707	26,370,271	31,659,736
Punjab	Chandigarh	50,362	16,788,915	20,281,969
Rajasthan	Jaipur	342,239	34,261,862	44,005,990
Sikkim	Gangtok	7,096	316,385	406,457
Tamil Nadu	Chennai	130,058	48,408,077	55,858,946
Tripura	Agartala	10,486	2,053,058	2,757,205
Uttar Pradesh	Lucknow	294,411	110,862,512	139,112,287
West Bengal	Calcutta	88,752	54,580,647	68,077,965

Territories
Andaman and Nicobar Islands; Chandigarh; Dadra and Nagar Haveli; Daman and Diu; Delhi; Lakshwadeep; Pondicherry

* estimate

Make careful plans - and then go with the flow...

Opportunities and challenges abound; remember to take plenty of patience

Six years ago, arrival at Delhi's Indira Gandhi International airport left you in no doubt about what sort of country you were coming to.

After waiting for ages in the dingy terminal, first at immigration and then for your luggage, you stood in line to change money at the only State Bank of India counter, where the sleepy clerk was in no hurry to attend to you.

One cold morning I had to hold the door of my taxi all the way to the hotel, in order to prevent it swinging open at roundabouts. Other foreigners had far worse experiences with taxi drivers.

It has all been smartened up a lot. Now you are quickly out of the airport, and pre-payment for taxis has removed a lot of scope for cheating – and, in any case, hotels operate efficient car pick-up services.

The best hotels in Delhi, Bombay, Bangalore, Calcutta and Madras, where business travellers are likely to stay, have improved their amenities and their service, though they are expensive and mostly still a notch below their counterparts in east Asia.

The short-term business visitor to India, unless allergic to the developing world, will enjoy the experience. Most such visits are centred around top hotels, where the food is good and safe, with occasional excursions for meetings and shopping adventures, and perhaps a day-long trip to the Taj Mahal at Agra thrown in. Indian business contacts will generally come to meet foreign visitors at their hotels and will shepherd them around.

But India is still challenging for foreigners who make longer visits, and especially for those who are assigned to the country on postings. Everything needs to be planned meticulously, and can still go wrong. Nothing can be relied upon to work right every time. All kinds of sicknesses are likely. Patience and stamina are essential. While some foreigners fall instantly in love with India, others find that the rewards take a long time to arrive.

To ensure that they do come, wide travel is vital: the wealth of experiences which India offers should not be missed. Most foreigners who live in Delhi, a city which hides its tough nature behind the beauty of its leafy Lutyens-designed centre, leave it as often as possible. But there are few quick trips: for example, a journey to Jaipur, the nearest big city in Rajasthan, takes five hours by road or a pre-dawn flight. Travellers have to allow enough time for each journey, and be prepared for plenty of early morning starts and delays.

The secret of successful travel is careful planning. Even so, you have to be ready to go with the flow. On one trip to Aurangabad, where I intended to spend a long weekend looking at caves, the aircraft broke down at Jaipur and was not mended. Nothing for it but to spend four days in Jaipur instead. But for some fellow-travellers, this was the second such disruption to their holiday within a week.

Long-distance road travel is not for the faint-hearted, and should only be undertaken in daylight. Trunk roads are littered with evidence of previous accidents. If you trust your driver, you simply watch the near misses in amazement. If you do not, you keep your eyes closed.

Trains are good, especially the short-haul inter-city Shatabdi expresses. First class air-conditioned sleepers rival the best in the world, and second class is perfectly acceptable. Domestic air travel has been revolutionised by the introduction of competition, and is quite efficient on routes between the main cities, but is expensive and still too vulnerable to delay.

All kinds of travel are subject to the vagaries of VIPs, of whom India has an astonishing number. Roads and air corridors are frequently closed for "VIP movement", delaying everybody else.

Foreigners never lose their justifiable nervousness about health. To reduce stomach problems, expatriates boil and filter water, soak vegetables in sterilising solution, and avoid red meat. The Delhi climate brings an annual round of mini-epidemics, ranging from conjunctivitis and indeterminate "fever" to mosquito-borne dengue and malaria.

The British and some other foreigners can use – at a price – the High Commission's excellent medical centre, but those who go to local doctors find that they often mis-diagnose and over-prescribe. The state of most hospitals leads foreigners to hope that, if something serious happens, the patient will be fit enough to be flown out for treatment elsewhere.

In summer, dehydration must be avoided through the intake of fluids, fruits and salts. The pre-monsoon heat, in May and June, can be overpowering – not much gets done at that time of year. In winter, the air pollution in Delhi is dreadful; Bombay, also polluted, benefits from sea breezes.

Many expatriates, particularly non-working spouses, experience "culture shock" – depression and alienation which may result from a feeling of loss of control over life.

Westerners who are used to doing things for themselves in quick time find it difficult to be dependent on other, less efficient people for the most routine things of life, such as driving, cooking and shopping. Reading the newspapers, which daily catalogue violent deaths and fatal "mishaps", can lead to fear of a brutal world outside the front door.

However, few people will move to India without being aware of these drawbacks, and most will therefore be prepared to stick it out until they are accustomed to them.

India is different, and that means it is an adventure and a huge learning experience.

● *The author has just completed a three-year assignment for the FT in Delhi*

FOREIGN POLICY • by Quentin Peel

Remoulded world view

Tenets which lay unquestioned for half a century after Nehru are being revised

Gujral's doctrine: India's premier and foreign minister seeks renegotiation of relations with south Asia neighbours Photo: Popperfoto

Mr I K Gujral, India's prime minister and foreign minister, is scarcely a revolutionary.

Aged 77, he is rather hard of hearing, soft-spoken, scrupulously polite, and a quintessential member of Delhi's cultured middle-class intelligentsia.

To be sure, he began his political career as a freedom fighter for independence, and a Marxist student at Lahore university. But to belong to the left was to be part of the Indian political establishment in those early days.

In a long political career since he first became a member of the uper house in 1964, he has been several times a government minister, first as a member of the once-dominant Congress party, and then outside it after he broke with Mrs Indira Gandhi. He was for five years ambassador in Moscow – the plum diplomatic job in the heyday of close relations with the Soviet Union.

Yet over the past seven years he has launched a rethinking of some of the basic tenets of Indian foreign policy, which have lain largely unquestioned and unaltered for the past half century.

He has introdnced the so-called Gujral doctrine, to renegotiate relations with the neighbouring states in southern Asia, making concessions without demanding automatic reciprocity. Most important, he has started to repair relations with Pakistan, and initiated debate in a deeply conservative diplomatic establishment abont India's links with the rest of the world.

India's post-independence foreign policy was moulded by two traumatic experiences: partition and decolonisation. It has come to be seen as beyond criticism or amendment, having been drafted largely by Jawaharlal Nehru, the father of independence. Any serious debate is only just beginning.

Partition, which resulted in the creation of East and West Pakistan, forced Mr Gujral to flee his home along with countless thousands of other refugees and resulted in three brief but bitter wars. The confrontation continues in the long-running insurgency in Kashmir, and has soured India's relations with the US and China, as well as with parts of the Moslem world.

As for decolonisation, it hae coloured India's approach to the rest of the world, inspiring its founder membership of the Non-Aligned Movement (NAM), its extremely close relations with the former Soviet Union, and its instinctive suspicion of the former colonial powers and their allies.

Both non-alignment and close relations with Russia remain pillars of Indian foreign policy, in spite of the collapse of the USSR in 1991, and the end of the cold war. Relations with Beijing have never recovered from India's humiliation in the border war of 1962, and the dispute remains unresolved.

It is fear of China, rather than Pakistan, which lies behind India'e stubborn refusal to give up the nuclear option. That policy in turn has undermined efforts to improve relations with Washington, in spite of their common commitment to democracy and human rights.

First hints of questioning of the NAM can be heard in the foreign ministry, in particular since the movement failed to back India in its refusal to sign the nuclear test ban treaty last year. But a senior Indian diplomat insists that the movement still has a role to play.

"There is a concern in many countries like ours that in this unipolar world we have lost our voice," he says. "We need the solidarity the NAM offers. It has enabled us to make a different kind of approach to international financial institutions."

Outside commentators are more sceptical. "The whole idea of non-alignment is a moral high horse India has been riding for 50 years," says Professor Brahma Chellaney, of the Centre for Policy Research in Delhi. "All the problems we are dealing with today are Nehru's legacy."

Newspaper columnist K. Subramaniam thinks mnch the same. "If yon ask me, it's no longer relevant," he says. "But India doesn't want to take the blame for giving it up."

Mr Gujral demurs. "It is a movement, not a bloc," he says in an interview. "Very often we have not voted together. But it is a major platform for ex-colonised nations who are trying to find their place in the sun, particularly in the economic sphere."

The prime minister also defends his country'e close relations with Rnssia. "it will always be important," he says. "It is the neighbourhood, and it is geography. During the last 50 years in particular we have interacted very closely. Most of the infrastructure of our indnstry was built with Soviet aid. Most of our defence structures were built with their assistance. I cannot ignore all this."

Yet apart from nostalgia, Russia's greatest importance to India is as an ally in ensuring the stability of central Asia, the region from which Delhi hopes to procure its future supplies of oil and gas. And central Asia is a good reason why India needs an accommodation with Pakistan.

"Any pipeline coming from Turkmenistan has to connect Pakistan and us," Mr Gujral said. "Central Asia is oil- and gas-rich. It is very important to us. Pakistan is already in energy surplus. It is another dimension of our relationship."

What Mr Gujral has introduced to the foreign policy debate is the realisation that economics matters as much as ideology. And he also decided that withont improved regional relations, India cannot put its wider international links on a firm foundation.

His talks with Mr Nawaz Sharif, his Pakistani opposite number, remain at a very early stage, but they are helped by the fact that both men speak Punjabi, and both were refugees as a result of partition.

"We are two sovereign nations, and we both want to live in peace with each other," he says. "This is a major change." He describes their talks as "a process, not an event. We are willing to talk on everything". His aim is to make enough progress on questions of trade and co-operation, and promoting closer personal relations, for the really tough question of Kashmir's status to become less of a stumbling block.

Mr Gujral's attempt to break the deadlock in the region is seen as crucial to India's wider infinence. "Until it resolves its place in the region – which means its relationship with Pakistan – it cannot play a world role," according to a senior western ambassador.

In the long run, however, relations with China could prove even more difficult to resolve. The two are trying to introduce confidence-building measures, such as troop withdrawals, along their disputed border in the Himalayas. But Indian analysts see the two countries as condemned to rivalry.

"Why is India keeping its nuclear options open?" asks Air Commodore Jasjit Singh, director of the Institute of Defence Studies in Delhi. "It's the China factor. It is taken for granted that we must do something to prevent any repetition of (the border war in) 1962."

What baffles many Indian analysts is the failure of Washington to understand that concern, or to include a role for India in its Asian strategy.

"The Americans would like it to be a bipolar world with China in the next century," says Mr Subramaniam. "But the Chinese don't want that. They see it as a polycentric world, and that means you must have a balance of power."

A desire to contain China is undoubtedly a factor behind India'e wish to have closer relations with the other Asian nations, in regional organisations such as Asean and Apec. But it is not clear that its strategy has been thought through.

"Gujral wants closer relations with Asean," according to an Asian ambassador in Delhi. "But his officials cannot stay focused on this for long. To them South East Asia is not a threat or a problem. It is just a coalition of small powers.

"As for Apec, we ask them: Why would you like to join? They seem to be thinking: Hey, we're the big guys, not: What can we contribute to Apec? We think they just want to be a member of the club."

VIEWPOINT

Nations born of violence, trauma

Relations with Pakistan have been dogged by mutual distrust

Political discourse in India is always intense but seldom captivating. Large doses of passion and determination are supposed to make up for the absence of creative edge.

Handling Pakistan is no exception. We are two countries born of trauma and violence. We spent our infancy in mutual mistrust and suspicion. With political adolescence came war.

The break-up of Pakistan and birth of Bangladesh became a self-fulfilling prophecy of doom for the former. The proxy war of terrorism inflicted on Punjab and Jammu and Kashmir vindicated the "hawkish" beliefs among the elite of the other. We have a cold war of our own. it may have had some echoes of the superpower conflict, but its longevity has proved it has a pedigree of its own.

There are three ways of looking at the "estranged neighbours".

First, as a matter of national identity and ideology. Pakistan was conceived and delivered as an Islamic country – an abode for the sub-continent's Moslems.

But India was meant to be the antithesis of the "two nation" theory. On this side of the artificial, and at times arbitrary, border our ancestors saw us as a synthesis: all religions and cultures which together and collectively we call India.

Not all Moslems could, or would, have chosen to go to Pakistan at Partition. There are 130m Moslems in India; more than the population of Pakistan. They have made enormous contributions to the Indian nation. Millions lead divided family lives – in Pakistan (mostly in Karachi) and parts of north India.

So whatever might have been the theoretical and ideological *raison d'être* of Pakistan in 1947, subsequent events have certainly repudiated that claim.

The second, related, perspective is the unfinished agenda of 1947. The partition of India meant division of its territories. Pakistan's psyche suffers a sense of inadequacy and restlessness at not having acquired the whole territory of Jammu and Kashmir.

To fortify itself Pakistan has developed an ostrich posture that the Moslem majority state of Jammu and Kashmir is the only really "friendly" area in India. Indian Moslems elsewhere are dismissed as inconsequential, "impure".

But for India, Jammu and Kashmir is more than a matter of territory. Having rejected the "two nation" theory emphatically, and built a wholesome secular nation, India cannot barter territory on the basis of religion.

The third perspective is the competitive relationship between South Asia's two most powerful natione. Regrettably, this competition has been negative. Pakistan aspires to the same positions as India, failing which, it does its utmost to obstruct us. An unhealthy one-upmanship leads to an arms race and brinkmanship.

And every time the law of diminishing returns starts to hurt politically – in domestic or diplomatic terms – we start to talk about talks. But little has been achieved, in spite of great expectations.

We dream of an Asian Highway, but even a decent flow of road traffic between our two countries is far off. We need natural gas for our industry, but a pipeline from Iran remains firmly on the drawing boards.

Central Asia is desperate to reactivate the "silk route", but the legal status of Pakistan-occupied Kashmir and Pakistan's fear of being flooded by Indian goods keep it in history.

It is doubtful if, except for the talks in Simla in 1971 which led to an undertaking to discuss peacefully all bilateral grievances, we have really talked in a manner which would lead to lasting results. And the Simla talks between Indira Gandhi and Zulfikar Ali Bhutto were a meeting of the victor and vanquished after the Bangladesh war.

Since Simla, more than two decades have passed in paying lip service. We have spend half our lives as independent sovereign countries waiting for a further breakthrough in relations.

If we have not actually made it, perhaps there is an explanation.

In these 25 years many intricate conflicts have been resolved. The Berlin wall has fallen, Vietnam has re-integrated, Israel and Palestine have discussed peace. Apartheid is dead, the Russian federation has accepted collaboration with Nato. Economic forces and political compulsions played a major rola in the reconciliations.

But concerned constituencies and statesmanship took the lead. Mandela, Arafat, Rabin, and Gorbachev all loom large as angels of peace in our times. Behind them stood millions of vocal citizens, impatient with economic stalemate, intellectually emancipated and determined to overthrow oppression. They aspired, and their leaders responded. Leaders dreamt and the people applauded.

Conditions in the Indian sub-continent have been different. There is no big constituency in India for peace with Pakistan. There is equally no constituency for war. There are isolated pockets of opinion shaped by personal experience. The proxy war in Jammn and Kashmir and the Bombay bomb blasts of 1993 might have made us wary and cautious, but curiously have not increased

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Strained relations: Kashmir is more than just a matter of territory Photo: Marcus Oleniuk

Nations born of violence

Continued from Page 27

hostility in the mind of ordinary citizens.

Pakistanis may have a higher level of concern, but even with them, domestic preoccupations seem to take priority. The military, of course, has been a consistent negative constituency.

Mr IK Gujral is the first Indian prime minister in many years to have an agenda for better relations with Pakistan. But even with him, it is perhaps a question of subjective preference and an intellectual committment more than an electoral compulsion.

Selling the idea of true and lasting peace with Pakistan, and educating Indian voters that they have a stake in this relationship, calls for a campaign led by a leader of national stature.

Constituencies, therefore, have to be created on both sides – divided families, academia, business and industry.

Electronic media are obliterating physical bonndaries. Telecom-munications have reduced distances in more ways than one. Liberalised economics have their own compelling logic which does not like compartments and control of any kind.

The ending of the cold war has taken the sting out of conflicts in our region. Such conflicts as continne are becoming an embarrassment, if not a nuisance, for major players of international politics. There is much fatigue and indifference to the Kashmir issue in international affairs. Pakistan knows that the notion of third party mediation to resolve the dispute is as good as still-born.

So the 50th year of independence – and sadly of partition – may provide more just than a sentimental opportunity and reason to discover a conceptual breakthrough.

If we together accept that the clock cannot be turned back and that time will not stop, we will start to know and like each other.

Then at least we will not leave the millennium with a sense of waste and loss. The next century is supposed to be the Asian century. India and Pakistan can, and must, be a part of it.

● *The author is a former Indian minister of state for external affairs*

INDIA AND THE COMMONWEALTH • by Derek Ingram

A fresh chapter opening

Years of official coolness may be replaced by a more active role in its affairs

Old images die hard in India, and the image of the Commonwealth is for the most part stuck in the past. Many people still see it primarily as a relationship with Britain rather than with 52 other countries of which Britain is just one.

This colonial hang-up lingering around the Commonwealth in India is in marked contrast with the perspective in south-east Asia or Africa, where independence came later.

The Commonwealth is associated in many Indian minds with Jawaharlal-Nehru, whose star has waned in recent years, and there are diplomats of the younger generation in the external affairs ministry who maintain that his decision to keep India in the Commonwealth was a mistake. They argue that the organisation is a ceremonial relic of the past and has little to offer India today.

India has never used tha Commonwealth as a prime international platform: it always rated as more relevant the non-aligned movement, which was to a large extent an Indian creation. Mrs Indira Gandhi was usually lukewarm when asked her views on the Commonwealth, although she played an active role at its summits and hosted the New Delhi meeting in 1983 (striking up an unlikely rapport with Mrs Margaret Thatcher, then the British prime minister, in the process).

Mrs Gandhi's son, Rajiv, was a more significant Commonwealth participant, particularly in relation to South Africa. He took on Mrs Thatcher over sanctions, which the British PM resisted stubbornly, first at the Nassau summit in 1985 and then more strongly at Vancouver in 1987, when he joined forces with the prime ministers of Canada, Zambia and Australia in isolating Mrs Thatcher.

The Commonwealth: after Nehru, a platform for relationships with foreign leaders but not often for policy

At this point it might have been expected that Indians would have recognised that the Commonwealth was no longer a British-run organisation. (It had, in fact, not been so since the days of internal disention over Rhodesia, but somehow the notion was not dispelled.)

After Mr Rajiv Gandhi, interest in the Commonwealth seemed to wane. An Indian prime minister has attended only one of the last four summits. Mr P.V. Narasimha Rao went as foreign minister to the meeting in Kuala Lumpur in 1989 in place of Mr Gandhi. As prime minister, Mr Rao put in only a brief appearance at the 1991 summit in Harare, attending neither of the subseqnent two meetings.

In a country as large and diverse as India, it is not to be expected that an organisation as multi-layered and sophisticated as today's Commonwealth would be widely known or understood among more than a tiny minority. After all, most Britons are also unfamiliar with its work.

But it has been a disappointment to those involved in the organisation that the country which formed the basis of the modern Commonwealth has participated so little in its mainstream development, even today when outsiders are lining up to join.

One serious hindrance to the relationship has been the hostility between India and Pakistan over the troubled state of Jammu and Kashmir over which the two Commonwealth members have twice gone to war. Given the history of the 1947 transition, the Commonwealth might have been an instrument of mediation, bnt India has never been keen to allow such outside intervention.

Another Commonwealth minus for India was the situation following the 1987 coup in Fiji, and the latter's lapsed membership.

The Commonwealth has long been divided on Fiji's re-admittance, which India firmly resists because of the racial nature of the island's constitution. With the prospect of restoration of a more liberal constitution this year, India is likely to lift its objections and Fiji could be readmitted at this year's summit in Edinburgh. This would remove one source of friction with India.

But despite such difficulties, prominent Indians have played substantial roles within the Commonwealth for years. Indian experts have been widely used by the Commonwealth Fund for Technical Co-operation – the body's small but widely respected technical aid programme. Distinguished Indian civil servants have served with the Commonwealth Secretariat. And one of the organisation's four centres for its youth programme is based in Chandigarh.

The growth of non-governmental organisations in the Commonwealth, and in India, led in 1993 to the move from London to New Delhi of the headquarters of the Commonwealth Human Rights Initiative. The chairman of its executive committee is Mr Soli Sorabjee, a former Indian attorney-general. CHRI is sponsored by NGOs representing lawyers, doctors, trade unionists and parliamentarians.

Mr Krishan Srinivasan, India's former foreign secretary, is now deputy secretary general. A host of other senior Indians has worked on Commonwealth initiatives, such as the Eminent Persons Report to South Africa in 1986, election observation missions, and work in its technical and aid activities.

And, for a number of reasons, this 50th year of independence could open a fresh chapter of relations with the Commonwealth. One is the arrival as prime minister of Mr I.K. Gujral, a man with wider international vision than his immediate predecessors, and one who understands the organisation.

The new Commonwealth's emphasis on trade, investment and development has a greater appeal to the India of 1997. Indian businessmen are expected to play a leading role in the Commonwealth business forum before the Edinburgh summit.

Moreover, relations with Britain have rarely been better since 1947. And though there are some Indian worries over the Labour party's position on Kashmir, there remains much traditional, if nostalgic, reverence for some of the party's former leaders.

Thus for the first time in a decade, and shortly following the visit of Queen Elizabeth to India this autumn, Edinburgh might see an Indian prime minister not only making more than a fleeting appearance at a Commonwealth summit but also playing an active part in its affairs.

● *The author is a journalist, writer of books on the Commonwealth and consultant editor of Gemini News Service, which he founded*

INDIAN BUSINESS IN BRITAIN • by Khozem Merchant

Revolution in the high street

Immigrants of Indian origin are at the heart of the UK's enterprise economy

Mr Patel would barely have given the idea credence when he first settled in Britain. His family's eight shops, side by side on a previously vandalised London street, would, within a decade, earn applause from fashionable business school gurus.

The row of terraced shops would be fêted as a model family business, benefiting from "economies of scale", the gurus would say. It was simply good business, said the baffled Patels, a way of earning a living that put a roof over their heads.

In any event, being hailed as exemplary was recognition. It is 25 years since the Patels and some 20,000 Ugandan Asians, mostly Gujaratis originally from north-west India, landed on Britain's shores, expelled by the regime of Idi Amin.

Together with thousands more immigrants from the sub-continent running newsagents, food stores and restaurants up and down the land, Asians have redefined retailing in the UK.

And, on the way, they have emerged as the country's most successful ethnic minority with a record of extraordinary achievement in business. "The new Jews", was how they were controversially described after the publication of a report last year on tha 1991 census entitled The Ethnic Minority Populations of Great Britain.

Today, Asian immigrants drawn from tha sub-continent and east Africa form tha largest single minority group in the UK, 840,000 or 1.5 per cent of the total population.

Of course, the road to recognition has not been easy. Initially, Asian businesses were the target of disdainful caricature. Today, they are courted by Britain's governing classes, but attract the occasional brickbat as well as bouquets.

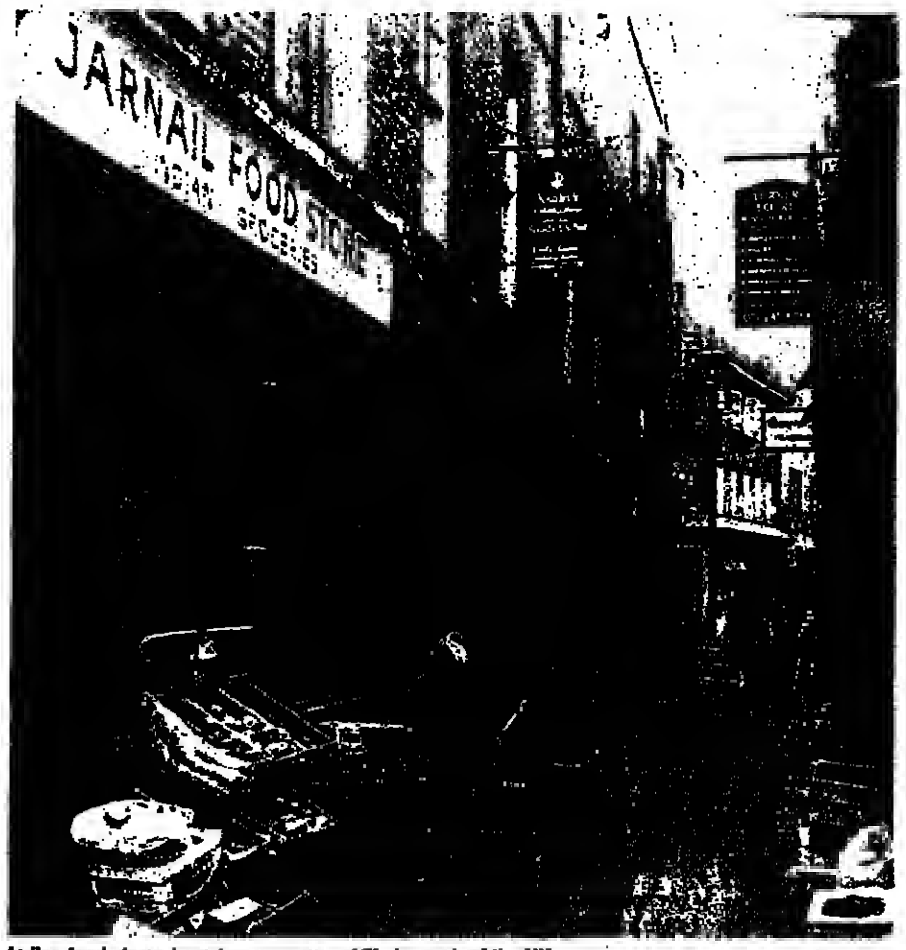
Politicians have aligned themselves with immigrants whose family values, thrift and entrepreneurship have exemplified, and ultimately outlived, the Thatcherite principles fuelling 18 years of Conservative government.

This courtship reached an apex last May with a shopkeeper's passage to Westminster. Mr Mohammed Sarwar, an immigrant from Pakistan with a fortune built from his cash-and-carry business, was elected to parliament after winning a safe Labour seat in Scotland.The Labour party has since taken steps to discipline Mr Sarwar following allegations – which he denies – that he bribed another Asian candidate to scale down his campaign.

Earlier, Lords Paul and Bagri, both Indian immigrants, were nominated to the upper house after distinguished business careers in Britain.

Banks and the financial institutions, however, have been distrustful of the supremacy of the family in Asian management and apparent Asian financial opacity. Suspicion reached a peak with the collapse of the Bank of Credit and Commerce International in June 1991, an institution managed by, and almost wholly geared towards, Asians. Its collapse under the weight of corrupt practices was a defining moment for Britain's Asian community.

But any Asian audit would end up handsomely in credit.



Indian food stores have boome a way of life in much of the UK Photo: Universal Pictorial Press

Britain's Asians have outgrown their retail roots. The diversity and depth of their commercial activity was reflected in a recent survey of Britain's top 100 Asian businesses by Eastern Eye newspaper, which estimated their aggregate wealth at £5bn – more than the gross domestic product of Uganda.

The survey revealed a second and third generation making its mark in new businesses such as the production of television programmes, manufacturing industry and computers. A decade back these were no-go areas, ruled out because of poor access to funding and higher education. Remarkably, the survey found that a 21-year-old retail millionaire, Mr Reuben Singh, squeezes the management of his growing retail empire between lectures at Manchester university, where he is studying for a business degree.

For more than two decades, the British Asian success remained a UK domestic phenomenon. But it took on a sharp international focus after 1991, as India, the "homeland", liberalised its economy.

As with the Chinese diaspora, patriotic capitalism became a rallying cry. Although this has yet to lead to a flood of investment by British Asians in the subcontinent, many are trying to diversify from mature UK markets. Typical is Lornamead, a London cosmetics company, which is ambitiously surveying the Indian market.

At the same time, economic liberalisation in India has allowed businesses from that country to explore overseas markets. Many have turned to London in order to gain access to international capital markets.

The British capital is now home to dynamic companies from Bombay, Madras and Calcutta, and Indian businesses that are already global in operation and ambition. London is a strategic tax-induced base for this small band, which includes Ispat, the massive steel group owned by the Mittal family, the Hinduja trading and finance group and the Madhvani trading empire.

These companies dwarf the interests of their British brethren, such as the textile magnate Mr Tom Singh, the industrialist Mr Nat Puri and the rice importer Mr Rashmi Thakrar, who run businesses that are largely UK focused.

Whether they have established their businesses at home or abroad, however, Indian entrepreneurs in Britain are all NRIs (non-resident Indian), a term invented by the Indian tax authorities to describe a person of Indian origin living overseas. In the global economy, the NRI has become a lexicographical convenience to embrace the textile magnate in Calcutta opening a US subsidiary and Mr Patel in east London.

PROFILE Gulam Kanderbhoy Noon

Surviving test of fire

Technology has helped an Indian food supplier win a place in British kitchens


Gulam Kanderbhoy Noon: driven by the support of his friends

The network which binds Britain's Asian business barons together rarely lets down its members. Ask Mr Gulam Kanderbhoy Noon. When a fire reduced his food factory to smouldering cinders, up sprang several friends with blank cheques.

"Build another one and don't worry about the noughts [on the cheque]," they told Noon, as he is universally known.

The fire, in November 1994, was a cathartic moment. Twenty years' work was wiped out. Shouldn't he just forget it and retire? Maybe try to master, again, that difficult slow-medium, right-hand round-the-wicket offbreak which after a life-long devotion to the game of cricket he still could not deliver.

"No," said Noon. "The fire was devastating but I was even more determined to carry on, and what really drove me on was the support of my friends, colleagues and customers."

He spent a seven-figure sum on a new factory, resuming a business career that had taken his award-winning frozen foods into kitchens across the land.

The family-owned Noon Products, and a small group of other producers, including Patak's in Wigan, have made mass-produced Indian foods respectable. British supermarkets sold Indian ready foods valued at £259m in 1996, forecast to rise to £278m this year, according to Mintel, the research group. One in four visitors to a supermarket buys an Indian food.

Many bear the Noon brand name which is carried on the 70,000 frozen meals a day that it makes at the new factory in Southall, west London. Sainsbury, the UK supermarket group, takes about 70 per cent of Noon's produce, perhaps the most flattering indication of the quality of a Noon meal. In 1996, the company, which employs 340 people, made a profit of £1.6m on sales of £24.6m.

Mr Noon arrived in Britain 24 years ago, just after the great wave of Ugandan Asians settled in the UK. He hails from Rajasthan, but betrays the business breeding of a Bombaywalla. His family ran a sweet-meats business in India's commercial capital, which Noon had taken over by the time be was 18. "That's how it is in Bombay. You learn early," he says.

In Britain, Noon set up the Bombay Halwa company with an Asian family that had settled in London, making a popular brand of Indian sweet-meats. Later, he joined forces with the Taj group of India, setting up a frozen foods venture in New York. This failed, however, to take off.

The experience laid the groundwork for Noon Products which after its launch in 1988 and the catastrophic fire has expanded steadily. "New York was where I learnt the value of technology," said Noon. "Every chef is an artiste but bulk cooking lies in the realms of science."

That much is obvious at his factory, where in the absence of any industry benchmark, Noon has had to commission pioneering machinery. For instance, the traditional clay tandoor of his native Rajasthan has been replaced by a conveyor-belt oven which cooks four tonnes of chicken a day. And though the delicate balance of spices is still determined by the sensitive nose of a chef, the overall operation is calibrated by computers.

Noon's rewards have been considerable, though probably among the most satisfying has been seeing his daughter, Zeenat, rise into a senior position at the company. He remains among the most visible British-Asian businessmen, as much at home among a familiar cabal of Asian tycoons, dining with a royal, or sitting in the members' enclosure at Lord's cricket ground, as he is on the board of his local enterprise and training council.

Noon was awarded an MBE in 1996 for his services to the food industry, an award be cherisbes as much as the company cricket team he sponsors.

Khozem Merchant

OVERVIEW • by Mark Nicholson

Basic needs still not met

Scarce resources are only partly the reason for continued slow social progress

Fifty years after Jawaharlal Nehru ushered in independence, "the noble mansion of free India where all her children may dwell" remains for many a slum, or s village with neither sanitation nor clean water, no primary school, or jobs.

For all India's political, economic and industrial achievements, an audit of human development today, as in 1947, makes bleak reading.

India's 960m people comprise one-sixth of humanity, but the country contains nearly one-third of the world's aheolnte poor. According to a recent report*, 130m people have no access to basic health facilities, 226m hava no safe drinking water, 70 per cent of the country lacks basic sanitation, and nearly half the population is illiterate: India has the higgest illiterate population in the world.

Women and children fare worst. More than 50 per cent of India's under-fives are malnourished, according to Unicef, worse than most countries in snb-Saharan Africa. Almost 40 per cent of India'e female children do not attend schools.

Altogether, the country today finds itself ranked 135th of 174 countries in the UN's annual Human Development Index, below such countries as Kenya, Ghana and Equatorial Guinea, though better placed than Nigeria, Zambia or Zaire.

This has not been for want of social spending, development assistance, or, for that matter, some progress in alleviating India'e ills.

Adult literacy has improved from 34 per cent in 1970 to 51 per cent, the crude death rate has halved to 10 per 1,000 people from the levels of 1960, as has the infant mortality rate over the same period. GDP per capita has doubled in the past three decades, even as its population doubled.

But the progress remains slow and often resistant to the most concerted of efforts. India's level of child malnutrition, for example, remains among the world's worst despite what Unicef** called "the largest effort in human history to improve nntritional standards", a scheme begun 20 years ago and now operating in 400,000 of India'e 600,000 villages, where 75 per cent of its people still live.

At present rates of progress in furnishing the basics of human development, the UN estimates*** that India can aspire to reaching "high" development – the level today of countries such as Hungary, Malaysia or Uruguay – only by 2100. At present population growth rates that will be more than 60 years after India surpasses China as the world's most populous nation.

As other articles on these pages examine in more detail, the reasons for India's inability to make deeper inroads into its grave welfare deficiencies are complex: solutions are nowhere as glaringly obvious as the problems themselves.

In part, it is a question of resources – India's annual per capita investment in health and education stands at just $14 against, for example, $160 in South Korea. In part, it is bureaucratic inertia, political bias towards the better-off, and complex social inter-relationships of caste and gender.

A recent Unicef report argued that India'e inability to feed its children better arose not simply from its poverty, or inequality, its diet or even government neglect. Little short of a radical social revolotion was needed, it argued. "To bring change, a sustained long-term effort must be made to promote equal freedoms, opportunities and rights for women."

To improve nutrition rates, a skein of inter-related deprivations had simultaneously to be unwound, including better health, ednication, nutrition for women, improved access to basic health services, increasing control over fertility and, "the key of keys", education for girls.

The future, said Nehru 50 years ago, was one of "incessant striving" to end poverty, ignorance, disease and inequality. It is, still.

● **Human Development in South Asia; Mahbub ul-Haq; Oxford University Press (1997); ** The Progress of Nations; Unicef (1996); *** Human Development Report; UN (1996)*

POVERTY • by Lisa Vaughan

Suffer the little children

The percentage has fallen, but more than 320m remain below poverty line

Mukesh, a four-year old, is one of 120,000 people living in shacks in Yamuna Pushta, one of Delhi'e largest and dirtiest elums. There are no toilets, no drinking water, no health care. Crime and alcohol abuse flourish. Most of the 56,000 children under 16 work.

Though Mukesh attends a crèche run by a non-governmental organisation (NGO), where he gets two meals a day, be is seriously underweight. While the other 90 children play, he stares into the distance.

In Azadpura, a village in the state of Uttar Pradesh, Mittla, who says she is 18, married young and has given birth to three children, all of wbom died after s few months. Mittla did not go to school. As she stands, veiled, on the dirt floor of her windowless hut, she constantly defers to the men in the village, who answer most questions for her.

Deprivatioo is endemic in India, especially in rural areas, where three-quarters of the population lives, and in the feudal north. The poor are low-caste, tribal, widowed or disabled. Most are landless and without assets.

They might receive daily wages of Rs30 to Rs50 as sharecroppers or migrant construction workers, coolies or domestic servants, stone crushers or beggars. They perform back-breaking tasks for long hours in wretched conditions. Most are illiterate and have little access to health care or public services. Those in cities live in cramped, filthy slums. Marginalised and powerless, the poor are often unable to take advantage of what few opportunities they get.

There has been progress since independence. The percentage of people living below the poverty line has declined from around 65 per cent in the 1950s to 36 per cent, according to the government's most recent measure. India has not experienced a serious famine since 1943. Life expectancy and infant mortality have improved. Literacy rates have crept up, though half of all adults still cannot read and write. Industrial employment has risen many times over, and food production has more than doubled since 1947.

Set against the population explosion, however, such improvements mean little: in absolute terms, the numbers of poor hsve doubled.

Some 320m to 350m of India'e 960m people are estimated to earn an income providing less than 2,400 calories a day in rural areas and 2,100 in cities. The number of poor today in India is equal to the combined population of British India – now India, Pakistan and Bangladesh – at independence. According to the United Nstions, India is bome to nearly one-third of the world's poor.

"India has to run to stay in place on poverty because there is so much to be done," says Ms Meera Chatterjee, social development officer with the World Bank in New Delhi. "The population ie expanding rapidly. The land the poor depend on is being degraded. The country's geographical diversity and size makes it more challenging to reach people."

Poor prospects: Many of the country's children are under-nourished — Photo: Marcus Oleniuk

India's record would oot look so bad were it not for the fact that many other developing countries have achieved more. Economists Jean Dreze and Amartya Sen, in the 1995 book *India: Economic Development and Social Opportunity*, say: "India's progress over the decades, while far from the worst, has been substantially and eystematically outclassed by many other developing countries."

Though there are regional variations, India compares with many sub-Saharan African countries. The United Nations Development Programme (UNDP), which ranks countries on measures such as unattended births, female illiteracy and malnourishment in the under fives, puts India in 89th place out of 101 developing economies.

Where has India gone wrong? Poverty has been high on the political agenda, at least in rhetoric, and the government has spent massively since the 1970s when Indira Gandhi campaigned on the populist Garibi Hatao! (Abolisb Poverty) platform. Anti-poverty programmss providing work, training, economic assets or loans have been increased, expanded, and modified in each successive five-year plan. Every prime minister since Mrs Gandhi bas vowed to reduce or eliminate poverty.

The incidence of poverty has declined gradually as an indirect response to economic growth, especially wben agricultural output has risen as in the Green Revolution of the 1970s. But growth has largely benefited the top layer of society, and little has "trickled down" to those millions living on the bottom, economists and development experts say.

Govsrnment safsty-net programmes have been largely unsuccessful because they seldom reach the communities targeted. Mr Siddharth Dube, policy analyst and author, explains in a forthcoming book bow Indian government funds intended for the poor are coopted at every hureaucratic level: "Almost down to the last paisa, the funds for the poverty alleviation programmes go to the well-off, those who are part of the flourishing network of corruption."

Everybody Loves o Good Drought, a book of stories from India'e poorest districts by journalist Palagummi Sainath, tells bow a tribe in Orissa state was denied benefits due to them because their name was mis-spelt in the official list.

Ons Indian NGO worker says, "There is bad management, political interference and a lack of efficient administration. And face it, the élite in this country bave benefited from the poor remaining poor. They have the notion that they need a service class and cheap labour for farms. Poverty is intentional, not just an oversight."

Today'e policymakers can identify past blunders and say they are now on the right track. Professor Saiyed Raza Hashim, a member of the Planning Commission and chairman of a steering committee on poverty alleviation, says: "We have trested two things separately, growth and poverty alleviation; as if they were unrelated. When poverty alleviation programmes have been detached from growth, they are unable to alleviate poverty oo a sustainable basis."

And for economic growth to be sustained, India's vast army of poor must contribute, he adds.

Dreze and Sen caution, however, thst economic growth is not enough: the poor have to be given greatsr opportunities through education and other public services.

Prof Hashim describes the failings of a government scheme intended to give the poor a productive asset. "We give a man a cow, but if he has no access to fodder, no way to maintain the health of the animal, or nowhere to sell the milk, sooner or later his venture will be a failure. We're trying to remedy that, to provide the linkages."

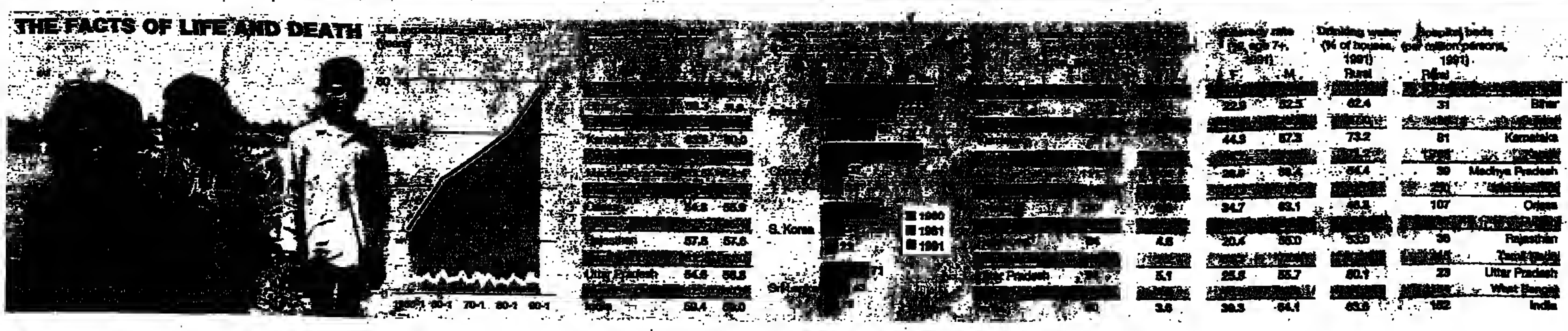
Remedies include encouraging access to environmental resources, ednication, training and credit.

The UNDP hopes to work with local village councils, the panchayats. The government too is trying to shift planning to the local and district levels, and the World Bank is working on a targeted, dietrict-specific approach that helps the poor to access loans, become self-employed, develop land and benefit from government schemes.

In central India, Development Alternatives, an NGO, is teaching the rural poor skills and new technologies. It has set up a model village near Orchha and Jhansi, on the borders of Uttar Pradesh and Madhya Pradesh, where locals make paper and building materials and generate their own power.

Teja, a 35-year-old mother of four from the Saharia tribe, works there as a brickmaker earning Rs900 a month and takes literacy classes during her lunch hour. "I've learned s lot and I don't mind working hard bere," shs says. "People treat me like an equal. Here, we drink from the same vessel."

The challenge is enormous. But in India's ocean of poverty, tbere are small islands of hope. Women are coming together in villages to fight alcoholism. Poor parents are starting to send their children to school. Air Vice Marshal S. Sahni, who heads Development Alternatives' water and forest reclamatioo projects, bowever, says things will not change quickly. "After 50 years of government handouts, it is hard to get people to think for themselves. They have learned to be dependent on us. It is a very slow process."



HEALTH • by Siddharth Dube

Disease, malnutrition take a heavy toll

Indifference among the ruling class compounds a dismal healthcare record

The average Indian is poor, illiterate, lives in a hovel and performs arduous tasks for a pittance. Because of India's failure to make sufficient improvements in health conditions, these hardships are compounded by sickness, physical handicaps, malnutrition and high risk of premature death.

From beggars with truncated limbs, skeletal men and anaemic women toiling at construction sites, to underweight child labourers, the most pervasive and gut-wrenching sights of poverty in India are related to disease or lack of healthcare.

Certainly, health conditions are far better today than at India's independence. Then, mortality from famine, chronic hunger and infectious diseases was so catastrophic that the average Indian could only expect to live to about 40 years. One of four infants died before their first birthday.

In the decades since, life expectancy has increased to just over 60 years. Infant mortality is now less than one in 10. Smallpox has been eradicated through vaccination. Malaria used to kill about a million people in the 1940s; by the late-1980s, its toll was negligible as a result of the control of mosquitoes. The destruction caused by other big killers has been palliated by more widespread inoculation, better access to medical services, modest improvements in water supply and quality, and better health education as a result of rising literacy.

This is progress, but of an unsatisfactory kind. Independent India's record on reducing ill-health and mortality is not only worse than those of other Asian countries (which had equally devastating health problems a half-century ago) but also below the average for all developing countries.

Compared with the other Asian giant, China, India's failures loom large. In China, infant mortality is nearly two-thirds lower and life expectancy more than 10 years longer.

India is unlikely to approach Chinese standards in the foreseeable future. According to the World Bank, more than half of all deaths in India are still caused by the "unfinished agenda" of communicable disease, malnutrition and complications in pregnancy and childbirth:

- The leading causes of death and sickness among children include diarrhoeal diseases (a result of abysmal sanitation and lack of safe drinking water), pneumonia and measles. Tuberculosis, an entirely curable disease, kills more than half a million Indians each year, mostly adults in their most productive years. With the programme to control mosquitoes now in disarray, malaria is once again one of the biggest causes of sickness: there are about 2.5m cases of the disease each year, several thousand of them fatal.
- Malnutrition contributes to a majority of the deaths of children under five. Over half of all young children – a much higher proportion than in any other Asian country for which reliable data are available – suffer from serious malnourishment. A very large number of adults are also undernourished.
- Indian women are at particularly high risk of severe illness and death in their reproductive years. Typically, they are malnourished and anaemic, work very long hours at strenuous jobs, forgo rest, and lack the time or money to seek healthcare or to have a trained attendant during labour.

The anti-female bias in India is such that despite gradually improving health care coverage, the proportion of females in the population continues to decline. In 1901 there were 972 females per thousand males; in 1991 there were only 929. This ratio is among the lowest in the world: in most countries outside South Asia, females slightly outnumber males.

Not only is the burden of the past fearsomely large, but the future holds severe new health threats.

Conservative Indians scoff et the thought of India becoming the global Aids capital, but, according to the World Health Organisation, by the close of this century the country will have the largest number of people with HIV, the virus that causes Aids.

If the speed at which HIV is spreading in India does not slow, 30 to 40 million Indians could be infected within the next quarter-century.

Sickness and mortality from smoking are also increasing. The World Bank estimates that smoking will, in about two decades, be responsible for 13 per cent of deaths in India.

Because of the growing proportion of older people in the population, non-communicable diseases such as heart disease, stroke, cancer, diabetes and blindness will also take e greater toll.

That ill-health and disease persist on this harrowing scale is largely due to the lack of attention paid by India's leaders to poverty, illiteracy and lack off housing.

Neglect of health is epitomised by paltry government spending on disease prevention and health care. Taken together, India's federal and state governments spend about 1.3 per cent of gross domestic product on health, far less than other Asian countries. This level of spending – which works out to just US$2 to $3 per person each year – is inadequate to meet even rudimentary health goals.

What funds there are are misallocated, with more than three-quarters absorbed by wages, specialised hospitals and medical education, leaving precious little for disease prevention, rural health care, or for drugs and essential supplies. Compounding these problems are the corruption and inefficiency that afflict every public service in India.

With the government abdicating its responsibilities, the average Indian is left with no alternative but to incur large expenses and debts to pay for curative care from private practitioners.

On average, each Indian spends about $10 every year on health care, more than the average Indonesian, whose income is nearly twice as large. For the average Indian, struggling to survive on an annual income of less than $400, the costs of treating routine fevers and infections appear worrisomely large; expenditures on treating serious sicknesses propel them along the road to destitution.

Although the leaders have done little for the health of the ordinary Indian, they have done very well for themselves.

India's rich and powerful have access within the larger cities to world-class health care, some of it provided cheaply at government hospitals. Nonetheless, top politicians routinely go to the West, at great cost to the public exchequer, for the treatment of ailments that they do not trust to India's best doctors.

● *Siddharth Dube is a health policy expert and the author of a forthcoming book on poverty in India*

THE ENVIRONMENT • by Miriam Jordan

Capital urgently in need of fresh air

Prosperity leads to more autos - and that fuels the deadly hazard of air pollution

The sticker slapped on New Delhi vehicles that pass emission-control checks reads: "Pollution under control." Try telling that to Ms Karen Grogg-Joshi, who has spent many months this year battling respiratory ailments in the capital.

"I couldn't go outside...I couldn't breathe properly," she says of the winter months when she suffers most from bronchial and sinus infections.

Nowhere is tha conflict between environment and economic development more evident than in New Delhi. India confronts several environmental challenges, including how to deal with water contamination and hazardous and solid wastes, but it is air pollution that poses the most immediate threat to its people.

In recent years, as more, newly-prosperous New Delhi residents have bought motor vehicles, they have increasingly poisoned the air of a city that is home to 11m people. India's capital is the world's fourth most polluted city, according to the World Health Organisation (WHO).

About two-thirds of the air pollution is generated by vehicles, compared with 24 per cent in 1971, says the country's environmental ministry. Together, vehicles, factories and power plants spew 2,000 tonnes of pollutants into New Delhi's air each day.

Ms Grogg-Joshi might consider herself fortunate. She could afford a doctor and antibiotics to treat her pollution ailments. The WHO estimates that last year 7,500 New Delhi people died from diseases related to air pollution. Reliable studies about the incidence of respiratory disease are not available, But anecdotal evidence from doctors suggests that it is rising strongly.

Other Indian cities are also suffering, but the outlook is gloomiest for New Delhi, particularly since it lacks a mass-transit system and the number of vehicles is growing faster than any other Indian city.

In Bombay, 5m commuters cram into suburban trains each day, and the ocean breezes help fan some of the vehicle exhaust fumes. Calcutta, the most densely-populated city, boasts an underground train service and electric trams.

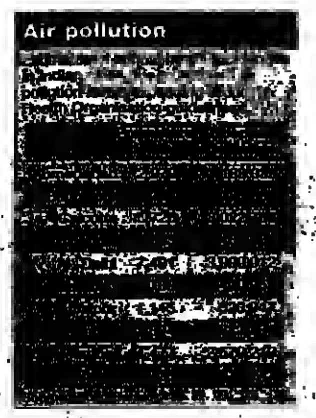
Experts blame the central government for endorsing only "sticking plaster fixes", such as the emission-control test required of New Delhi motorists by the local government, instead of legislation with lasting, far-reaching impact.

"The government is responsible for killing people," says Mr Anil Agarwal, director of New Delhi's independent Centre for Science and Environment.

To underscore the government's apathy, environmentalists point to the fact that it was the supreme court which took the lead in trying to save Indians in leading cities from noxious air. In 1995, the court decreed that all new cars sold in New Delhi, Bombay, Calcutta and Madras should to be fitted with catalytic converters to reduce harmful emissions.

The government this year drafted emission norms for all vehicles that, it says, will come into effect nationwide in April 2000.

To meet the standards, 85 per cent of all new cars and about 25 per cent of two-wheelers will have to be equipped with catalytic converters. Tha problem, experts say, is that the devices require unleaded fuel, the quality and availability of which is uneven in the main urban areas.



Mr Randy Henderson is managing director in India for AlliedSignal, the US company that makes the key component in catalytic converters. He says: "It took Thailand six years to have unleaded fuel countrywide, and that's the most impressive example."

India's problem stems from the fact that its car market has been heavily protected for years. Most of the indigenous car models use leaded petrol and diesel. Only in the last few years have modern foreign cars entered the market, prompting the wider use of unleaded fuel.

A senior official at the ministry of the environment insists that unleaded petrol will be readily available everywhere. He says: "All these goals are achievable. It will be done."

A 1996 study by the Centre for Science and Environment (CSE), called "Slow Murder: The Deadly Story of Vehicular Pollution in India", blames low-quality fuel, archaic vehicle technology and inadequate vehicle maintenance, among other things, for India's air pollution.

The low-quality diesel supplied by state-owned refineries has a sulphur content several times higher than that sold in western countries, environmentalists say.

If the government has been late in waking up to the problem, India's auto industry has also been reluctant to take note of it.

Environmentalists say the industry has been loth to invest in the technology to make vehicles eco-friendly. The CSE points out that Hindustan Motors made no changes to the engine design of the ubiquitous Ambassador model for 33 years, from 1953 to 1986.

Blame is often directed at Bajaj Auto, tha largest maker of two and three-wheelers in India. A popular mode of transport in New Delhi, scooters, motorcycles and auto-rickshaws are responsible for about 70 per cent of tha air pollution. Costing e fraction of the price of a car, two-wheelers outnumber cars by three to one on the city's roads. In India overall, about 3m two-wheel vehicles were sold in the fiscal year to last March, against 411,000 passenger cars. Industrial analysts expect this trend to continue.

Meanwhile, Bajaj Auto spends on average only 1 per cent of its annual turnover on research and development, according to the CSE study. Mr Rahul Bajaj, the company's managing director, says it is investing to upgrade engines and control emissions of new models. Mr Bajaj says his company intends to fit catalytic converters to its models to meet the government's April 2000 norms.

He is currently consulting with several teams from US and European companies interested in developing catalytic converters for two and three-wheelers in India.

In fact, Bajaj Auto is running a pilot scheme with rickshaw drivers in Bombay. But Mr Bajaj says: "Nobody is prepared to buy rickshaws fitted with catalytic converters because they can't find enough petrol pumps with unleaded fuel."

● *The author is a journalist living in New Delhi*

India 50 YEARS of independence

Alexander Nicoll selects some of the events which have shaped a nation

Mourners scatter petals at Rajiv Gandhi's funeral in Delhi on May 24 1991, which was attended by thousands Photo: Magnum

1947

August 15: India obtains independence as British India is divided into two countries. Pakistan, which gained independence the previous day, is divided into two parts, West and East, with India in between. Jawaharlal Nehru becomes first Indian prime minister.
Nearly 1m lives lost in communal violence as millions pour across India-Pakistan border in two-way exodus of refugees.
October 27: Maharaja of Kashmir, Hari Singh, accedes to Indian sovereignty. Following Kashmir government's appeal, Indian troops secure Srinagar against incursion by tribesmen from Pakistan. Fighting breaks out and undeclared war continues for months.

1948

January 11: Mahatma Gandhi fasts for a week, saying: "Death for me would be a glorious deliverance rather than that I should be a helpless witness of the destruction of India, Hinduism, Sikhism and Islam."
January 30: Nathuram Godse, a radical Hindu, assassinates Mahatma Gandhi in New Delhi. Nehru says: "The light has gone out of our lives and there is darkness everywhere."

1949

January 1: United Nations-monitored ceasefire takes effect in Kashmir, intended as precursor of plebiscite in state of Jammu and Kashmir under UN auspices. Plebiscite never held.

1950

January 26: India adopts new constitution and becomes a republic.
March : Planning Commission established with Nehru as chairman, begins drafting five-year plans along Soviet lines.

1951

October 25 - February 21: First general election. Congress party wins 364 of 489 seats with 45 per cent share of vote.

1954

April: India concludes treaty with China incorporating "five principles": mutual respect for each other's territorial integrity and sovereignty; non-aggression; non-interference in other's internal affairs; equality and mutual benefit; and peaceful co-existence.

1955

Chinese troops enter India's Garhwal district in Uttar Pradesh; withdrawn after protests from Delhi.

1956

Second five-year plan envisages substantial investment in capital intensive public sector industries such as steel and heavy machinery.

1957

February 24 - June 9: Second general election. Congress wins 371 of 494 seats with 47.8 per cent share of vote.
China constructs road linking Sinkiang with Tibet, crossing Aksai Chin area of Ladakh, claimed by India.
Government curbs imports and fiscal deficit in response to severe balance of payments problems.

1959

March: Dalai Lama flees from Tibet to India, which grants him asylum, angering China.
October: Military confrontation with China in Aksai Chin. Also fighting with Chinese troops at Longju, in north-east.

1961

December: Indian army takes over Goa, Portuguese colony on India's west coast.

1962

February 16 - June 6: Third general election. Congress wins 361 of 494 seats with 44.7 per cent share of vote.
October: Nehru orders troops to take back territories held by China. India loses ensuing border war. Chinese troops advance with ease until ordered to withdraw on November 21.

1964

May 27: Nehru (above) dies after series of strokes.
June 9: Lal Bahadur Shastri becomes prime minister

1965

April: After skirmishes in Rann of Kutch, Pakistani tanks roll across area and penetrate Indian territory.
June 30: Ceasefire agreed under UN auspices.
August 15: Shastri charges Pakistan with invading Kashmir while Pakistan reports that a "spontaneous war of liberation against Indian imperialism" had broken out in Kashmir.
September 1: Pakistan launches Operation Grand Slam, attempting to capture Kashmir. Tank battle fought at Sialkot, Pakistan. India wins as tanks reach three miles from Lahore. US suspends food aid to India and Pakistan in response to war, and subsequently refuses to renew PL480 aid agreement on long-term basis.

1966

January 4-10: Tashkent conference between Pakistani leader Ayub Khan, Shastri and Soviet premier Kosygin. India agrees to withdraw on Pakistani undertaking to renounce force
January 10: Shastri and Ayub pledge "firm resolve to restore normal peaceful relations," non-interference in each other's affairs, and to promote economic relations, communications and cultural exchanges.
January 11: Shastri dies of heart attack in Tashkent, hours after signing agreement.
January 24: Indira Gandhi, daughter of Nehru, becomes prime minister.
June: Rupee devalued from 4.76 to 7.5 to the dollar, and tariffs and export subsidies rationalised, following pressure from US, World Bank and IMF.

1967

February 15-28: Fourth general election. Congress wins 283 of 520 seats with 40.8 per cent share of vote, but opposition parties elected to power in six leading states.
Growth in agricultural production begins after sharp decline, as Green Revolution, designed to boost yields and production, takes hold. Foodgrain output rises 35 per cent in three years.

1969

July 16: Indira Gandhi, battling against Congress party old guard, takes control of finance ministry, ousting Morarji Desai, who resigns from Cabinet.
July 19: Fourteen leading banks nationalised. Monopolies and Restrictive Trade Practices Act passed to regulate business houses.
November 12: Indira Gandhi expelled from Congress party for "indiscipline". Rallies majority to her side of split party.

1971

March 1-13: Fifth general election. Indira Gandhi wins with slogan "Garibi Hatao" – "Beat Poverty". Her Congress party takes 342 of 518 seats with 43.7 per cent share of vote.
March 26: Sheikh Mujibur Rahman, popular leader in East Pakistan, arrested in Dhaka by Pakistani troops after breakdown of talks with Pakistani leaders. He exhorts citizens of "Bangladesh" to rise. Pakistani troops attack students and Hindus in Dhaka. Nearly 10m Bengali refugees begin flooding over border into India.
August: After US President Richard Nixon reveals that secretary of state, Henry Kissinger, had flown from Pakistan to Beijing to prepare ground for presidential visit to China, Mrs Gandhi invites Soviet foreign minister to Delhi. They sign Treaty of Peace, Friendship and Co-operation.
December: India intervenes militarily in East Pakistan. Soviet Union vetoes UN resolution calling for immediate ceasefire. Pakistani troops surrender and Bangladesh is created as nation separate from Pakistan.

1972

Pakistan and India sign Simla Accord, agreeing to solve problems bilaterally.
Monsoon failure causes drought and 8 per cent drop in agricultural production.

1973

Coal mines nationalised. Grain trade nationalised, but measure reversed due to disastrous mishandling of imports. Some states have food shortages, and wheat prices rise sharply.
Government takes over management of "sick" companies including some textile mills. Foreign Exchange Regulation Act (Fera) passed, comprehensively controlling foreign investment and payments abroad.

1974

Sharp rise in world oil prices adds to inflationary pressures. Massive protests against inflation and Congress party corruption erupt in Bihar and Gujarat. Planned national railway strike crushed by government, with 20,000 arrests. Strikes in many public sector industries and student unrest.
May 18: India explodes nuclear device underground in Rajasthan desert.
July: Government announces package of anti-inflation measures, and prices begin to fall from September.

1975

June 12: Allahabad High Court finds against Indira Gandhi after her opponent in 1971 election alleged she had made inappropriate use of government facilities in campaign. Politicians around the country urge her to step down.
June 25: Huge opposition rally held in Delhi, led by Morarji Desai and JP Narayan.
June 26: State of emergency declared, suspending civil rights and press freedom. Opposition leaders including Desai and Narayan arrested. Thousands of politicians, journalists, students and lawyers imprisoned. Indira Gandhi unveils 20-point programme of economic reforms. Strikes and opposition parties banned. Censorship enforced.

1976

Government enforces unpopular family planning programmes to curb population growth, including "voluntary" sterilisation.

1977

January 18: Opposition politicians are released, and elections called.
March 16-20: Sixth general election. Janata party grouping wins 295 of 542 seats with 41.3 per cent share of votes and forms first non-Congress government with Morarji Desai as prime minister. Congress wins 154 seats with 34.5 per cent of votes.
Coca-Cola and IBM pull out of India after refusing to comply with requirement on foreign companies to reduce shareholdings in Indian subsidiaries to 40 per cent.

1979

July 19: Morarji Desai resigns after split in Janata party. Charan Singh becomes prime minister but forced to resign within weeks. President calls elections.
Monsoon failure causes drought and 15 per cent drop in agricultural production. Agitation in north-eastern state of Assam disrupts oil and power supplies, as second oil shock brings sharp rise in price of imported oil. Industrial recession begins and inflation accelerates.

1980

January 3-6: Seventh general election. Congress wins 353 of 529 seats with 42.7 per cent share of vote.
January 14: Indira Gandhi becomes prime minister again.
June: Sanjay Gandhi, Indira Gandhi's younger son and closest adviser, dies while stunt flying his aircraft over Delhi.
India takes loan from IMF and begins negotiations on extended fund facility (EFF).

1981

November: IMF executive board approves SDR5bn EFF, although US abstains because it believes loan is too large and carries insufficient conditionality.

1982

Asian Games held in Delhi. Rajiv Gandhi, Indira's only surviving son, oversees arrangements which include building of luxury hotels in the capital.

1983

Captained by Kapil Dev (right) India wins cricket World Cup
October 6: Mrs Gandhi imposes President's rule on Punjab after Sikh/Hindu violence.

1984

June 5: In Operation Blue Star, Indian army troops storm Golden Temple complex at Amritsar, killing hundreds and inflicting severe damage on Sikhs' holiest place. Bhindranwale, leader of extremists whom troops were seeking to "flush out," is killed.
October 31: Indira Gandhi assassinated by two Sikh bodyguards. Her son Rajiv, a former Indian Airlines pilot, becomes prime minister at the age of 40. Over 2,700 people killed in anti-Sikh riots over next three days, mostly in Delhi.

December 1: Deadly gas escapes from pesticide tanks at Union Carbide's plant (above) in Bhopal, Madhya Pradesh, killing 2,000 people and injuring hundreds of thousands.
December 24-28: Eighth general election. Congress wins 415 out of 542 seats with 48.1 per cent share of vote.

1985

Rajiv Gandhi initiates economic reforms, reducing red tape, regulations on industry exports and imports, and cutting taxes.
July: Rajiv Gandhi signs Punjab Accord with Sant Longowal, leader of Akali Dal party, promising many measures long sought by Sikhs in Punjab. Includes promise that Chandigarh, capital of both Punjab and Haryana, would become Punjab's capital alone from January 29 1986. This did not happen. Violence in Punjab grows over next few years until it is quelled in the early 1990s.
December: First meeting of heads of seven south Asian countries held in Dhaka, marking inauguration of South Asian Association for Regional Co-operation (Saarc).

1986

VP Singh, finance minister, clamps down on large companies for tax evasion and other offences.

1987

January: Rajiv Gandhi moves VP Singh from finance to defence. Singh responds by inquiring into alleged "kickbacks" supposedly paid by Swedish arms manufacturer Bofors to an associate of Rajiv Gandhi.
April: VP Singh forced to resign. Rajiv Gandhi denies receiving money from Bofors.
July 29: Rajiv Gandhi and Sri Lanka's President J.R.Jayewardene sign agreement, under which Indian "peace-keeping" force would enter Jaffna, northern Sri Lankan stronghold of rebel Liberation Tigers of Tamil Eelam, and disarm them. But Indian troops fail to subdue LTTE.

1989

November 22-26: Ninth general election. Congress loses power for second time, winning 197 of 543 seats with 39.5 per cent share of vote. On December 2, V.P.Singh becomes prime minister as head of Janata Dal party. National Front coalition forms minority government supported by the Bharatiya Janata party and Communist parties.
Violence intensifies in Kashmir following kidnap of a minister's daughter. Intense struggle between Kashmiri militants and security forces continues for next six years, with half a million Indian troops deployed in the state.

1990

President's rule imposed in Punjab, Assam and Kashmir as a result of unrest.
VP Singh announces government will implement recommendations of Mandal Commission which would reserve 27 per cent of government posts for "other backward castes" in addition to 22.5 per cent reserved for "scheduled castes and tribes". This provokes violent protests from upper-caste Hindus.
October: Government responds to oil shock from Gulf war by imposing 25 per cent surcharge on petroleum products and delaying imports. Non-resident deposits turn negative. Borrowing abroad becomes difficult. Moody's Investors Service sharply downgrades India's credit rating.
November 10: Chandrashekhar becomes prime minister at head of minority government with Congress backing after BJP withdraws support to VP Singh over issue of mosque at Ayodhya. BJP and allies had long campaigned to have mosque removed and temple to Hindu deity Ram built on site, which Hindus believe to be the god's birthplace. BJP leader L.K.Advani is arrested on public order grounds while leading march to site.
December: Government increases taxes and cuts spending, tightens import curbs

1991

January: Deal reached with IMF on $1.8bn standby loan.
March 6: Government falls but continues as caretaker as economic crisis worsens. Central bank raises money against gold reserves. India nears default on debt.
May 21: Rajiv Gandhi assassinated by Tamil militant suicide bomber while on election campaign trip to Tamil Nadu. Funeral is attended by thousands in Delhi (left).
May 20-June 15: Tenth general election: Congress wins 232 of 543 seats with 36.5 per cent share of vote. Its new leader, P.V.Narasimha Rao, becomes prime minister of minority government which later acquires majority through defections and alliances.
July: Facing external payments and fiscal crisis, Rao and finance minister Manmohan Singh launch radical economic reforms designed to reduce fiscal deficit and open up economy to foreign investment. "Licence raj," in which virtually every corporate decision needed official approval, is ended. Import tariffs reduced. IMF and World Bank make loans to support reforms.

1992

April: Stock market scandal causes losses to banks and 43 per cent drop in market index.
December 6: Hindu extremists tear down mosque at Ayodhya. More than 2,000 people die in subsequent riots, including hundreds in Bombay.

1993

March 12: Over 350 killed in series of bomb blasts in Bombay.
September: Nearly 10,000 die in earthquake centred at Latur, Maharashtra.

1996

April 27-May 21: Eleventh general election. Bharatiya Janata is largest party with 195 seats, including those of allies. On May 18, Atal Behari Vajpayee becomes first BJP prime minister, but his government fails to achieve majority and falls after two weeks. Regional and leftist parties coalesce into 13-party United Front, with 178 seats. On June 1, it forms minority government which Congress party, with 136 seats, supports "from the outside". H.D.Deve Gowda of Janata Dal party, chief minister of Karnataka, becomes prime minister. Narasimha Rao later loses leadership of Congress, replaced by Sitaram Kesri.
October 30: Narasimha Rao appears in court on fraud charge, one of more than a dozen former Congress government ministers to be either charged or investigated in corruption and other cases.

1997

March 30: Sitaram Kesri withdraws Congress support from government, causing it to lose confidence vote. United Front removes Deve Gowda as leader.
April 21: I.K.Gujral, external affairs minister from Janata Dal party, appointed prime minister with renewed support from Congress.
May 12: Gujral meets Nawaz Sharif, first bilateral between Indian and Pakistani prime ministers since 1988.